



# TOWARDS BROAD, FLAT, LOW-RATE AND PREDICTABLE TAXES

Third Edition

BY  
HUZAIMA BUKHARI  
DR. IKRAMUL HAQ



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PRIME is an economic policy think tank working for an open, free and prosperous Pakistan. It has five broad functions: conduct independent and rigorous analysis, provide timely policy appraisals, organize dialogues, educate the public and train young economists.

The study titled "**Towards Broad, Flat, Low-rate and Predictable Taxes**" by Huzaima Bukhari & Dr. Ikramul Haq (2016) analyses the structural and operational weaknesses of the existing tax system at federal level and suggests alternate solutions in the areas that require fundamental reforms. This study, as updated in October 2024 argues that taxpayers have to deal with multiple tax agencies adding to their cost of doing business and the non-existence of tax-related benefits is the most neglected area of our discourse on reforms. It highlights the existing four-tier tax appellate system, how it has failed to deliver and the alternate system which can be adopted.

Note: Some earlier years data is available in the online versions of 2016 and 2020 editions.

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Conceiving and then formulating the blueprint of any workable alternate system was quite a daunting challenge, but we had motivation and immense support from learned persons that included, amongst others, Dr. Arthur B. Laffer. His centre of research, courtesy Rizwan Rawji, reviewed the contents of the paper and gave endorsement along with valuable suggestions. We are also thankful to Mr. Nicholas C. Drinkwater, Chief of Staff, Laffer Associates (103 Murphy Court Nashville, TN 37203) for his immense support.

Getting appreciation from the *Guru*, Dr. Arthur B. Laffer, was indeed a matter of great honour for us. His work was undoubtedly a great source of inspiration to write this paper. Preparation of a comprehensive scheme for simple, broad and flat-rate taxation was made possible through continuous interaction and detailed discussions with Mr. Rizwan Rawji, Ali Salman, Dr. Nadeem Ul Haque, Dr. Safdar Sohail, and Sohaib Jamali, who encouraged us, extended their valuable guidance and made many useful suggestions to improve the study.

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This work is dedicated to millions of Pakistanis (who, despite being burdened with enormous taxes, get nothing in return) in the hope that ultimately, with a simple, broad and flat tax system there will be prosperity for the country and its citizens.

## A Personal Foreword — Journey of Ideas (First Edition)

No one has written as extensively on taxation in recent years in Pakistan as Dr. Ikramul Haq and Huzaima Bukhari. It should not surprise anyone, that Dr. Ikram along with his better half, Huzaima Bukhari are now considered as Pakistan's leading experts and prolific writers on the subject of tax.

When I was first introduced to Dr. Ikramul Haq, some years ago, our ideas on taxation were not in perfect harmony. I argued for a flat tax- same percentage of income tax regardless of the income level, and he was for a progressive taxation—higher income earner should pay a higher percentage of his marginal income as tax. I was told that Ikram is more of a believer in an egalitarian society and is a proponent of the progressive taxation system, so as to effectively redistribute wealth.

Ideas have consequences, rather as Khalil Ahmad would like to say, they are infectious. I believe that Dr. Ikram and Huzaima Bukhari got a protracted intellectual infection—from our first roundtable on "Pakistan's Prosperity Agenda" ten years ago to their introduction to the godfather of flat taxation—Dr. Arthur Laffer, the author of "*Return to Prosperity*". Dr. Laffer is known for his lasting contribution to the theory of economics and public finance, *Laffer Curve*—an idea which he attributes to the 12<sup>th</sup> century Muslim sociologist and historian Ibn Khaldun.

From a believer in progressive taxation for social justice, Dr. Ikram and Huzaima Bukhari have come to arrive to what is the crux of their study, in their own words: "lower, flat, predictable and broad-based taxes, administered through efficient tax apparatus, Pakistan can achieve *fairness* in taxation system." You read it right: flat tax will lead to fairness.

On the face of it, progressive taxation appeals to the conscience of social justice. Rich should pay more tax, proportionately, than the poor. However, even in a flat taxation mode, the rich would pay substantially more tax than the poor—in an absolute sense. In fact, progressive taxation is a morally unfair idea. By adding layers of exemptions, we have also made it a technologically inferior solution.

The imposition of progressive tax, and in particular, a high marginal income tax, is a disincentive to be rich and to create wealth. If I know that after, say, earning Rs. 10 million in a year, I will need to surrender seven lac rupees (Rs. 700,000) out of every *additional* earning of ten lac rupees (Rs. one million) to the federal government, what I will most likely do? I would not like to work and earn anymore and *substitute* it with leisure.

Tax is needed for a government to function, not for wealth redistribution. Therefore, for a legitimate tax, the government needs to be lean as well as transparent. That the government is failing in its drive to expand the tax net, regardless of tax proceeds, is a testimony to the failure of an increasingly complex, uncertain and progressive tax regime. The only solution is not doing the same but the exact opposite: move to a low, flat, broad and predictable tax regime. In its current study, PRIME's authors and fellows, Dr. Ikramul Haq and Huzaima Bukhari, have shown us a roadmap and a rationale for this structural transformation. I believe that their ideas will gain currency over time with the policy elite, for ideas have consequences, and are infectious.

**Ali Salman**  
**Founder & Executive Director**  
**Prime Institute**

# Preface to the Third Edition of Towards Lower, Flatter & Predictable Taxes

The third edition of the above-titled study is presented retaining historic data, wherever necessary and record contained in the first/second edition (printed in its original form) wherever relevant. New chapters and up-to-date data covering all developments since its publication in 2016 [updated in 2020], wherever available, have been added. Special thanks are due to Mr. Aleem Masood, head of composing wing at our law firm (Huzaima & Ikram) and Syed Muhammad Ijaz, FCA and Advocate High, for helping in updating data from various sources and preparing tables, charts and updating appendixes. We have analyzed performance of Federal Board of Revenue (FBR) since publication of the first edition and added a chapter highlighting challenges faced by Pakistan on the fiscal front. Historic data of tax collection since 1948 is also presented along with key indicators showing that the existing tax system of Pakistan is crumbling.

Nothing has changed since the publication of our study, simply because of the unwillingness of successive governments to implement a simple, low-rate, flatter and predictable tax system. The rotten, outdated and oppressive tax structures at federal and provincial levels have created further fiscal mess that is highlighted in the new chapters and solutions offered for their resolution. We have, in an article<sup>1</sup>, showed that low and flat rate taxation of retail sector has potential of US\$ 15 billion whereas FBR in fiscal year 2023-24 collected total tax of Rs. 9311 billion that includes net sales tax collection of Rs. 3099 billion (after retaining accumulated refunds of about Rs. 1500 billion). Surprisingly, the data released by Ministry of Finance in respect of federal and provincial fiscal operations for fiscal year 2023-24, is still showing collection of FBR at Rs. 9311 billion by not taking into account the undisputed bona

vide established refunds due as on June 30, 2024. On September 2, 2020, before the National Assembly Standing Committee on Finance, FBR's officials admitted 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). The amount of Rs. 800 billion has further accumulated between July 1, 2020, to June 30, 2024 [FBR has not yet disclosed its details].

**Huzaima Bukhari  
&  
Dr. Ikramul Haq**

## Executive Summary

Federal and provincial governments in Pakistan have shown a lukewarm attitude in restructuring the country's tax system to achieve efficiency, equity and to promote economic growth. Complex tax codes, complicated procedures, reliance on easily collectable indirect and withholding taxes, weak enforcement, inefficiencies, incompetence and corruption are main factors for low tax collection.

Instead of broadening the tax base and simplifying laws, federal and provincial governments offer amnesties, immunities, tax-free perquisites and benefits to powerful segments of society. As a result of this policy mindset, ordinary businesses and citizens suffer. This study argues radical revamping and restructuring of the entire tax system, suggesting broad, low, flat and predictable taxes.

Tax reforms undertaken to date have mainly been patchwork and proven to be an exercise in futility. Tax reform commissions, advisory and consultative committees, constituted for reforming the system, have proven to be unsuccessful as they have been suggesting remedies for curing the incurable or otherwise curing symptoms rather than addressing causes.

The so-called reforms, including World Bank-funded six-year-long Tax Administration Reforms Project (TARP) and ongoing Pakistan Raise Revenue Project (PRRP)<sup>1</sup> with closing date of June 30, 2025, have failed to encourage people towards voluntary tax compliance. The number of tax filers has fallen since 2003 (excluding those filing NIL declarations or income below taxable limit or paying negligible amount to become part of Active Taxpayers' List to avoid higher incidence of withholding taxes). In 2020, the Federal Government

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<sup>1</sup> World Bank Group, *Pakistan Raises Revenue*, accessed November 6, 2024, <https://projects.worldbank.org/en/projects-operations/project-detail/P165982>

obtained loan of US\$400 million for Pakistan Raise Revenue Project. It may be mentioned that the total cost of PRRP is estimated at US \$1.6 billion, of which counterpart contribution is \$1.2 billion and IDA financing is US\$400 million. Following in the footsteps of the Federal Government, the Punjab Government also borrowed US\$304 million from the World Bank for tax reforms, which was approved by Planning Commission on September 16, 2020<sup>2</sup>. Like earlier programmes, these are also bound to fail<sup>3</sup>. The only viable option for meaningful change is to replace the existing tax system with a lower, simpler, and predictable tax system that is pragmatic, growth-oriented, broad-based and above all, citizen-friendly for compliance.

With such a system in place, those who are not in the tax net or who avoid true disclosures would be induced/encouraged to pay their taxes voluntarily. This should be coupled with transparent and quality spending of taxpayers’ money for the welfare of society as a whole and incentivizing growth and economic well-being of every individual.

This research study analyses the structural and operational weaknesses of the existing tax system at federal level and suggests alternate solutions in the following areas that require fundamental reforms:

<u>Area</u>	<u>Solution</u>
Complex Income Taxation:	Low-Rate Taxation:
Distorted/Multiple Sales Taxes	Harmonized Value Added Tax
Customs/SRO Culture	Single-Rate Customs Duty
Multiple Tax Collection Agencies	National Tax Agency
Inefficient Appellate System	National Tax Court

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<sup>2</sup> Shahbaz Rana, “Punjab to borrow \$304m from World Bank,” *The Express Tribune*, September 17, 2020, <https://tribune.com.pk/story/2264308/punjab-to-borrow-304m-from-world-bank>

<sup>3</sup> Ikramul Haq, “Punjab: tax reforms with foreign loan!” *Daily Times*, September 20, 2020, <https://dailytimes.com.pk/668577/punjab-tax-reforms-with-foreign-loan/amp/>



These fundamental reforms can provide the basis for an alternate tax system. Tax reforms without a fair and efficient tax administration can never be enforceable. For this a federalised tax collecting agency, the National Tax Agency (NTA), is proposed. Officers of the Federal Board of Revenue (FBR) in the past reportedly suggested the name: Pakistan Revenue Board (PRB). Our suggestion is that this body, whatever may be the name, should 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.

The NTA can be assigned the task of collecting all taxes for the federation (levied in terms of Article 142 read with the Fourth Schedule to the 1973 Constitution of Islamic Republic of Pakistan by federal and provincial parliaments). This is necessary for reducing the monstrous size of multiple collecting agencies at federal and provincial levels that are marked with inefficiencies, incompetence and corruption.

Presently, taxpayers have to deal with multiple tax agencies adding to their cost of doing business. A well-equipped, automated and efficient tax agency is imperative to facilitate the citizens for discharging their tax obligations through one-window operation and also to disburse tax-related benefits (pensions, social security, income support etc.) to the deserving people. The non-existence of tax-related benefits is the most neglected area of our discourse on tax reforms.

The existing three-tier tax appellate system (four-tier for Customs) cannot deliver as well. The problems faced by taxpayers in

appeals/references speak volumes of the ineffectiveness of various judicial forums that have been assigned the statutory obligations to safeguard them against unjust imposition of taxes. Revenue authorities are also unhappy with the tax appellate system as litigations take years for settlement of tax disputes. Therefore, in order to make the appellate system more responsive, the existing tax tribunals dealing with direct and indirect taxes need to be restructured.

This study proposes an efficient appellate system where the first appeal goes to the National Tax Court (NTC) with the right of another appeal in the form of intra court appeal. Subsequently, if any substantial question of law needs consideration, it can be referred to the Supreme Court by way of leave to appeal or certificate of fitness by the NTC. This will help in achieving uniformity of decisions since at present High Courts in different provinces, most of the time, differ on identical questions of law and it takes years for final authoritative pronouncement by the Supreme Court. The proposed tax justice system can ensure expeditious settlement of tax disputes, preferably within a year's time of first order.

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 as well as corporate taxation. This study suggests simple and low-rate taxation of 10 percent for all entities other than companies, for which a flat rate of 20 percent is proposed.

The right to levy sales tax on goods rests with the federal government and that on services lies with the provincial governments. Presently, federal sales tax on goods is fraught with exemptions, multiple rates (from 18% standard rate to about 70% on high diesel oil at some point of time prior to 2018, under the

regime of Pakistan Muslim League (Nawaz) from 2013-2018, now replaced with equally disastrous fixed petroleum levy up to Rs. 70 per liter) and complicated procedures for various kinds of goods. The same position prevails with the provincial tax codes where telecommunication services are taxed at 19.5 percent in addition to 15 percent (75% in case of non-filers) advance/adjustable income tax paid by the subscribers. This kind of harmful taxation, especially collecting 15% to 75% advance/adjustable income tax from millions of mobile and internet users having no income or income below taxable limit is unconstitutional, unjustified, anti-growth and anti-investment.

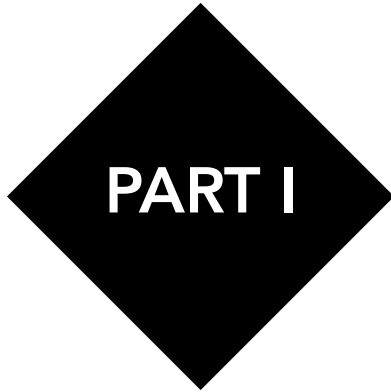
This study proposes single-digit sales tax on goods by federal government at the rate of 8 percent across the board with no exemption, excluding exporters who would continue to have zero-rated regime. The only exemption shall be on food, life-saving drugs, books, children's garments and educational equipment. Provinces can also consider imposing harmonized sales tax (HST) at the same rate on services, details of which require a separate study. Alternately, we should move towards a unified sales tax on goods and services through national consensus whereby provinces give the right under Article 144 to the National Assembly as was done by India in 2017.

Under the current Customs Act, 1969, exemptions/concessions are granted to goods in three categories under Pakistan Tariff: (i) Fifth Schedule of the Customs Act and Statutory Regulatory Orders (SROs), (ii) Chapter 99 of Pakistan Customs Tariff and (iii) export promotion schemes announced from time to time.

There are over 5,000 effectively traded tariff lines and 2448 tariff lines (33% are under 20% slab). Since fiscal year, 2019-20, on 5521-tariff lines additional customs duty (ACD) and on 2075 tariff lines regulatory duty (RD) was charged. Heavy taxation at import stage

(55% of FBR revenue is collected at import stage) provides incentive for smuggling, undervaluation, misreporting, wrong declarations and tax evasion. The SRO-based customs policy has rendered the actual tariff different from the standard tariff. Consequently, customs tariff has multiple rates, several exemptions, and various “conditions and requirements” to be fulfilled to avail those exemptions. This creates opportunities for discretionary use of power by officials, raising the cost of doing business and incentivizing malpractices and wrong declarations for evading duties. Recognizing these problems, this study proposes a single slab for all imports in order to end these undesirable practices.

Crux of this study: lower, flat, predictable and broad-based taxes, administered through efficient tax apparatus enabling Pakistan to achieve fairness in the taxation system. It would create incentives for better compliance and lead to accelerated economic growth. A paradigm shift is required to restructure the entire tax system to induce more investment, accelerate growth and ensure economic prosperity for the country, thus benefiting all members of society.



**PART I**



## Chapter 1: Flat-rate Taxation

*“A tax system’s function should be solely to raise enough revenues in order for government to perform its requisite tasks. While all taxes are bad, some taxes are worse than others. So, what you want your government to do is to collect taxes in the least damaging way possible, but still able to raise the requisite amount of revenues for government to function effectively. In addition, because of the damaging consequences of taxes, government should spend as little as possible in achieving its objectives. Efficiency in government spending is essential for economic prosperity”*

—**Dr. Arthur Laffer** Keynote address at the “Africa 2025” Conference held on November 23<sup>rd</sup> and 24<sup>th</sup>, 2015 in Casablanca)

*“Unlocking tax revenue potential requires broadening tax bases, strengthening revenue administration and taxpayer compliance, eliminating distortionary tax expenditures, and rationalizing tax policy for greater efficiency and equity through a comprehensive and front-loaded reform agenda”<sup>iii</sup> —IMF Country Report 16/2 (2016)*

According to research published by Sustainable Development Policy Institute (SDPI), Pakistan is considered to be among the highest taxed telecom markets in the world. The cost of ownership of a basic handset and connection in Pakistan is above 30%<sup>4</sup>. Mobile

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<sup>4</sup> Usman Hanif, “High telecom taxes hindering digitalization,” *The Express Tribune*, May 03, 2020, <https://tribune.com.pk/story/2212714/high-telecom-taxes-hindering-digitalisation>

phone services play a critical role in supporting economic growth and social inclusion<sup>5</sup>.

In the wake of Covid-19 pandemic, telecom sector started playing a vibrant and key role by providing connectivity and digital services across the country as many people moved to work remotely and e-health and e-education and other online services became a necessity. Despite this, exorbitant taxes are levied in Pakistan on mobile/internet services that telecom industry has been pleading to be rationalized. The impact of these taxes is highly negative for the growth of IT sector exports. The 15%/75% advance and adjustable income tax paid by mobile/internet users can be claimed if they file tax returns. However, the vast majority having below taxable income are not required to file returns. In other words, those who are at the bottom of the pyramid and require assistance from the government turn out to be the ones that end up paying taxes to the government!

The sales tax levied by provinces on telecom services is 19.5% and FBR has now also raised excise duty on it to 19.5% from 17% within Islamabad Capital Territory (ICT). On a recharge of Rs.100, consumers pay advance and adjustable income tax, of Rs 15 as filers and Rs. 75 if not appearing on FBR's Active Taxpayers' List and sales tax/FED of Rs 19.50. There are other levies as well.

According to a report<sup>6</sup> available on the website of Pakistan Telecommunication Authority (PTA), in 2022-23, the telecom sector had gross revenue of Rs. 850 billion and it contributed Rs. 340

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<sup>5</sup> Ikramul Haq and Huzaima Bukhari, "Harmful taxation of IT/telecom sectors," *Business Recorder*, August 28, 2020, <https://www.brecorder.com/news/40014992/harmful-taxation-of-ittelecom-sectors>

<sup>6</sup> Pakistan Telecommunication Authority, "Telecom Indicators", Revenues, <https://www.pta.gov.pk/category/telecom-indicators/168>



billion<sup>7</sup> to the national exchequer in terms of taxes, withholding taxes, duties and levies, and attracted investment of US\$762 million<sup>8</sup>. The sector also drew US\$55 million<sup>9</sup> in foreign direct investment<sup>iii</sup> (FDI) during the year, which showed a negative growth of (-) 222 percent as in preceding fiscal year (2021-22), it was US\$ 168.4 million<sup>10</sup>. The figures for 2023-24 have not yet been released. Higher taxes have resulted in a massive reduction in FDI in this sector as well as depriving customers of better services like G5 and spectrum.

In extreme days of financial hardships, millions of mobile users, some of whom are even declared eligible for Benazir Income Support Programme (BISP), have been brazenly subjected to extortion by the Federal Government 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/immunities but the vast majority of population, even those living below poverty line, is forced to pay oppressive taxes<sup>11</sup>. Adding insult to injury, they do not get in return even basic amenities of life (clean drinking water etc.), what to speak of free education/health care, decent living, and affordable public transport. The private sector cannot grow in these circumstances as there is no level playing field and excessive taxes create distortions in free market operations.

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<sup>7</sup> Pakistan Telecommunication Authority, "Telecom Indicators", Investments, <https://www.pta.gov.pk/category/telecom-indicators/167>

<sup>8</sup> Pakistan Telecommunication Authority, "Telecom Indicators", Exchequer Contribution, <https://www.pta.gov.pk/category/telecom-indicators/169>

<sup>9</sup> Pakistan Telecommunication Authority, "Telecom Indicators", FDI, <https://www.pta.gov.pk/category/telecom-indicators/170>

<sup>10</sup> Ibid.

<sup>11</sup> Ikram Ul Haq, "Incidence of Taxes," in *Civil Society and Pakistan's Economy*, ed. Fayyaz Baqir (Routledge, 2023), 82-101.

## A. Growth-oriented Taxation

One of the main objectives of taxation 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. In Pakistan, this goal is yet to be achieved. Recent years have witnessed the closure of many large and small industries and stagnation in economic growth. There are many factors behind this, of which the paramount one is oppressive and inconsistent tax policies of successive governments.

The highhandedness of FBR in meeting revenue targets, complex revenue codes, especially enormous withholding tax liabilities, long-drawn litigations, and blockade of bona fide refunds, are forcing Pakistan's business community to search for better avenues abroad. Similarly, foreign investors are reluctant to avail opportunities in Pakistan because of the prevailing political instability, onerous regulations, high taxes, anti-business climate, and resultantly Pakistan loses on potential technological transfers, rapid industrial growth and employment generation.

In a Press release<sup>12</sup> FBR claimed:

*Federal Board of Revenue (FBR) has received the highest number of returns ever in its history on 15th October, 2021. As the fifteen days extended deadline ended at midnight on Friday, FBR had already received a staggering number of 2.6 Million returns and collected Rs. 48.6 Billion tax with returns as against 1.8 Million returns and 29.6 Billion tax paid with returns on 8th December, 2020, the closing date, last year. This*

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<sup>12</sup> Federal Board of Revenue, "Record high number of returns received by FBR," <https://fbr.gov.pk/record-high-number-of-returns-received-by-fbr/163199>

*signifies 45% growth in filing of tax returns while 64% growth in tax paid with returns.*

*However, FBR had received only 0.5 Million returns and Rs. 9.8 Billion tax with returns on 15th October, 2020, registering almost five times higher growth both in returns filed & tax paid with returns on the same date, last year.*

*Therefore, it is quite reassuring to witness that FBR is already zeroing in on 3.0 Million total returns received and 54.7 Billion tax collected with returns against the entire TY-2020, as on 30th June, 2021.*

*This phenomenal growth has been made possible through a robust strategy and a comprehensive print and electronic media campaign launched by FBR. It was further reinforced by a vibrant campaign launched through national heroes, celebrities and public figures whose video messages went viral on social media. In yet another innovative initiative, FBR had mobilized all cellular companies to deliver a bilingual customized SMS to their combined 128.6 Million subscribers across the country. Likewise, eminent columnists and writers were also engaged to promote a culture of tax compliance through their op-eds and columns, published in the leading national newspapers.*

Earlier, according to a Press release<sup>iv</sup> of FBR issued on February 28, 2020, 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 has further said that tax collected in the month of February 2020 was "increased by seventeen percent compared to corresponding period in the last year. The number of individuals filing the Tax Returns in Tax Year 2019 is 2,342,701, whereas 62,403 Associations of Persons and 40,988 Companies filed their Tax Returns".

However, the figure given for Tax Year 2018 of 1,687,000 in Press release<sup>13</sup> were later reported in **FBR Year Book 2018-19**<sup>14</sup> [page 11, Table 7] at 2,666,256 and 2,852,349 in *Tax Directory Analysis for the year ended 30 June, 2018*<sup>15</sup> showing position of returns received up to September 14, 2020 for tax year 2018. The following figures have been given about tax returns filers from Tax Year 2016 to Tax Year 2017 from **FBR Year Book 2018-19** and for tax year 2018 from *Tax Directory Analysis for the year ended 30 June 2018*:

**Table 1: Income Tax Returns**

Category	TY 2016	TY 2017	TY 2018	Growth (TY 18/ TY 17)	
				%	Absolute
Individual	1,472,657	1,797,903	2,743,404	52.6	945,501
AOP	52,821	56,779	64,336	13.3	7,557
Company	35,504	38,417	44,609	16.1	6,192
<b>Total</b>	<b>1,560,982</b>	<b>1,893,099</b>	<b>2,852,349</b>	<b>50.7</b>	<b>959,250</b>

**Source:** FBR Year Book 2018-19 and FBR Tax Directory analysis for the year ended 30 June 2018<sup>16</sup>

<sup>13</sup> Federal Board of Revenue, "FBR Press Release," February 28, 2020, <https://www.fbr.gov.pk/pr/no-further-extension-in-date-of-filing-income/152284>

<sup>14</sup> Revenue Division, Year Book 2018-2019, Ministry of Finance, <http://download1.fbr.gov.pk/Docs/20191115911472992FBRREVENUEDIVISIONYEARBOOK2018-19.pdf>

<sup>15</sup> Federal Board of Revenue, *Tax Directory Analysis 2018*, <http://download1.fbr.gov.pk/Docs/20209181193938934TaxDirectoryAnalysisforyearended30June2018.pdf>

<sup>16</sup> Ibid.

Yet, the governments' preoccupation with annual revenue targets has diverted their attention from the need to devise a stable investment-oriented tax system promoting infrastructure development, investments and employment generation. The existing tax system discourages corporatization of business. In Pakistan, corporate taxation is very high (company tax rate plus tax on dividends and then super tax etc.). At present there are about 225,000 companies registered with Securities Exchange Commission of Pakistan. When this figure was 125,000, around 44,600 were active tax filers as mentioned in *Tax Directory Analysis for the year ended 30 June, 2018*<sup>17</sup>. The situation in 2024 is almost the same. Such low level of compliance even by companies can be attributed to numerous anti-corporate provisions in the tax codes.

For instance, after collecting billions as 'collection agents' of the state, without any compensation, companies are penalized for inadvertent lapses. 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 and super tax are some examples of anti-corporate provisions. In such circumstances, conducting business through a company is discouraged, especially when audited accounts by independent and credible auditors are whimsically rejected by taxation officers without any concrete objectionable and plausible material on record. As a consequence, companies are forced into litigation and incur huge costs to get justice<sup>v</sup>.

Aside from being anti-corporatization, the existing tax system also promotes a parallel economy. Due to overemphasis on withholding taxes, people prefer concealing their actual transactions and do business in multiple names, in each case keeping lower threshold to avoid coming into the ambit of withholding provisions (which are more than 65 in number!). With a low flat-tax rate of 20%, not only

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<sup>17</sup> Ibid.

higher amounts would be collectable but rapid corporatization of business could also be possible.

However, instead of simplifying the corporate tax regime, in 2022, super tax was imposed retrospectively under section 4C of the Income Tax Ordinance, 2001 that was challenged in High Courts and was declared ultra vires by Lahore and Islamabad High Courts. The matter is presently sub judice in the Supreme Court.

Through the Finance Act, 2015, super tax under section 4B of Income Tax Ordinance, 2001 was levied for rehabilitation of temporarily displaced persons that is still part of statutes. 'Tax on undistributed reserves' [section 5A of Income Tax Ordinance, 2001] was imposed through Finance Act 2016 from tax year 2017 on companies, ignoring that reserves are created from already taxed income, and it was withdrawn after tax year 2019. 'Minimum taxation' of 11 percent of gross turnover of service sector companies was another wrong move as well as 'Alternative Corporate Tax' [section 113C of Income Tax Ordinance, 2001] since 2014.

This erratic, arbitrary and extortive taxation has further retarded Pakistan's corporate sector growth. On the other hand, tax evasion and avoidance are perpetually encouraged for which in 2018 and 2019, the governments of Muslim League (Nawaz) and Pakistan Tehreek-i-Insaf (PTI) introduced money whitening and tax amnesty laws causing loss of tax in billions<sup>18</sup>. Earlier, yet another amnesty was granted on January 21, 2016, by National Assembly through Income Tax (Amendment) Act, 2016<sup>vi</sup>, despite protest and boycott from opposition parties.

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<sup>18</sup> Ikram ul Haq, "Incidence of Taxes: Who Bears How Much Burden? in *Civil Society and Pakistan's Economy*," ed. Fayyaz Baqir (Routledge, 2023), 82-101, <https://www.taylorfrancis.com/chapters/edit/10.4324/9781003302896-6/incidence-taxes-ikram-ul-haq>

## B. Fiscal Dilemma

Even after levying all kinds of oppressive and high-rate taxes, the federal government has failed to bridge the ever-increasing fiscal deficit that is creating a greater debt burden; at present around 70 percent of tax revenues are going towards debt servicing alone<sup>vii</sup>. Provincial governments too are not generating sufficient funds on their own; nor are they properly utilizing the available resources for spending on health, education and other critical public services. Instead, they are critical of the inefficiencies of FBR. The provinces claim that due to low collection by FBR, their respective share in the overall divisible pool is inadequate to meet annual budgetary requirements.

Since the share of every province in federal taxes under the National Finance Commission (NFC) is dependent on how efficiently and fairly taxes are collected by FBR, it is important that federal and provincial governments work collectively under a single agency. No serious debate has been initiated on the issue so far to suggest ways and means for collecting taxes efficiently, fairly and justly through all Pakistan unified tax service. How to increase the cake's size to ensure that both the center and provinces have sufficient funds to run the governments and provide social safety networks is the most critical question that needs to be holistically examined.

## C. Tax System in Perspective

For the last more than many years, critics have been pointing out shortcomings in the existing tax system<sup>viii</sup>. They are of the view that even after the reforms since 2003, there has been little or no improvement; many in fact say that things are getting from bad to worse<sup>ix</sup>. There is consensus that Pakistan suffers from massive revenue leakages owing to structural issues in the outdated tax system that exists today.

The prevailing large size of undocumented economy has much to do with the way taxes are being administered for the last many decades where successive governments have increased their reliance on indirect taxes, through withholding taxes under the garb of income taxation. Even the Inland Revenue Service (IRS) has transferred a major portion of its responsibilities of collecting tax to withholding tax agents leaving very little to justify its own existence<sup>x</sup>. Moreover, complicated procedures both at the federal and provincial levels, especially after the Constitutional (Eighteenth Amendment) Act 2010 [18th Constitutional Amendment], have kept businesses from coming into the formal sector's fold<sup>xi</sup>.

In essence, the lives of compliant taxpayers have become miserable, depriving them of the motivation to be honorable taxpaying citizens 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 eventually trickle down in the form of some benefit to them.

Under these excruciating circumstances, it is imperative to devise a system that would ensure voluntary compliance, boost businesses, ensure transparency, allow market forces to flourish with responsibility, and simultaneously help generate substantial revenue for governments to function without extensive borrowing. There is no doubt that a logical scheme of things capable of raising large revenues without disrupting the life of an ordinary business or citizen would be a welcome respite.

Another important factor that discourages compliance with tax laws is the complicated and cumbersome nature of procedure involved in getting registered with revenue authorities. Even corporations and the educated class find it difficult to comprehend, follow and observe the cumulatively applicable innumerable legal obligations.



There are over 65 withholding tax provisions. However, if a survey of just those provisions is conducted, it would reveal how a person is supposed to be aware of so many avenues where tax is either being withheld, or he is himself paying income tax, the credit of which he may or may not be allowed to take while filing his annual return of income. 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 grasp of law would be required to apply it<sup>xii</sup>.

Given the present level of inflation and high cost of living, the minimum threshold of income (Rs. 600,000) where no income tax is to be paid nor does a return need 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, it is unrealistic to expect the common person to have any cognizance about tax laws. Had taxation been restricted to simple arithmetic, the situation would have been much better, and the people would not have been discouraged from paying taxes.

In contrast, no exemplary punishment has been meted out to confirmed tax evaders, nor has there been any effort made at the grass root level to educate the public about their tax obligations. This is despite the fact that the law requires that tax officers should counsel and guide the taxpayer with respect to his duties and rights.

#### **D. Informal Economy and Tax Losses**

Tackling twin menaces of informal money and tax evasion has always been a failure in Pakistan. In fiscal year 2023-24, FBR collected Rs. 9311 billion (after withholding cumulative refunds of Rs. 1500 billion) against documented GDP of around Rs. 106 trillion (details of low tax collection under the existing system and real

potential are highlighted in **Appendix C**). The informal economy is driven by many aspects of poor fiscal policy, and as highlighted by Dr. 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.”<sup>xiii</sup>

Instead of dealing with these issues, successive governments have been pardoning and appeasing tax evaders through various laws and amnesty schemes. The result is obvious: there is an ever-growing informal economy. Therefore, this study proposes that instead of announcing periodic tax amnesties, the government should ask all citizens to take benefit of the low rate of 10 percent and file returns for past years without any penalty or additional tax. Those who fail to do so should be dealt with strictly and unsparingly under the law.

## E. New Paradigm—Flat-rate Tax

*“... the best tax is one that has the lowest possible tax rate on the largest tax base. The lowest rate creates the least incentive to evade, avoid, or otherwise not report taxable income, while the broadest tax base provides the minimum number of places to which people can escape from reporting taxable income. My flat tax does exactly this. My proposal improves our nation’s tax system by broadening the tax base and significantly lowering marginal tax rates. Combining the largest possible tax base with the lowest possible tax rate provides people the smallest opportunity to avoid paying taxes and the lowest incentive to do so. Reduced incentives to avoid or evade taxes result in a reduction in the associated costs of monitoring these activities. In addition, lower tax rates go hand in hand with greater incentives to work and produce”<sup>xiv</sup>.*

A fresh approach towards taxation is needed for achieving fairness, growth and fiscal stabilisation. Hypothetically speaking, if the federal government needs Rs. 20 trillion net taxes (after transfer to provinces their share under NFC Award) for meeting all development and non-development expenditure, it must determine a fair tax base to achieve this objective. The current tax system is only benefiting those who can flout the law, and those abetting them.

This study suggests a simple flat and low-rate tax that is neither burdensome nor difficult to implement. A flat and low-rate tax may harm the interests of a few e.g. tax bureaucrats, tax advisors etc., who would most certainly oppose it. However, if Pakistan has to overcome the twin inter-related malaises of fiscal deficit and debt burden, then there is no option but to dismantle the existing, outdated and anti-growth tax system. Higher, rapid and sustainable growth alone can solve Pakistan's fiscal problems. The misdirected emphasis on higher and oppressive taxes has to date failed to serve the country and its citizens.

We are now trapped in yet another extended fund facility (EFF) programme of the International Monetary Fund (IMF) with the ruling parties celebrating the latest bailout as if it would solve all our economic woes. The 37-month US\$ 7 billion EFF programme, signed at staff level on July 12, 2024, and which received the approval of Executive Board of IMF on September 27, 2024<sup>19</sup> is going to create further hardships for the marginalized sections of society in the wake of more oppressive taxes. Besides, it would push the country into a deeper debt trap, recession, unemployment and low-growth cycle.

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<sup>19</sup> International Monetary Fund, *IMF Executive Board Concludes 2024 Article IV Consultation for Pakistan and Approves 37-month Extended Arrangement*, Press Release No. 24/343, <https://www.imf.org/en/News/Articles/2024/09/27/pr-24343-pakistan-imf-concludes-2024-aiv-consultation-pakistan-approves-37-mo-extended-arr>

Arthur B. Laffer has elaborated the theory of 'Flat Tax' for United States that can address our problems as well. He aptly observes:

*"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. 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<sup>xv</sup>.*

Referring to the significance of mode of taxation, Dr. Laffer draws 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"<sup>xvi</sup>.*

There has to be a source of motivation for taxpayers to comply voluntarily and to some extent eagerly in contributing to the national exchequer. Whenever governments across the globe

resort to high-handedness in collecting taxes, the people term it as broad daylight robbery and start indulging in evasion. This is propounded by Laffer as under:

*“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”<sup>xvii</sup>.*

Keeping in view our peculiar socio-economic circumstances and general public mind-set, the tax system that will work smoothly for Pakistan, must be a flat-rate system with no compliance hassles. All taxes should be merged into one single tax with complete assurance to the citizens that they would be free from any kind of harassment; and money collected would be judiciously spent.

The agenda of fair taxation cannot succeed if wastage of public funds and its abuse by successive governments continue unabated. The *quid pro quo* for paying taxes is as important as the system to collect tax. While the public is blamed for not paying their due share, revenue collection authorities are perhaps equally responsible for indulging in corrupt means, taking the cover of complicated procedures that eventually lead to poor collection of revenue. The solution thus lies in the broad, simple, and predictable flat and low-rate tax<sup>xviii</sup>.

The tax base with respect to direct tax vis-à-vis fair distribution of incidence can be achieved as under:

1. **20 percent flat rate corporate entities; and**
2. **10 percent flat rate tax on individuals.**

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 an intelligence system that can easily detect tax avoidance. Without this deterrence even the new system, which is a great deal simpler, would 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 fulfilment of their tax obligations, and firm to the extent of punishing willful defaulters.

#### **F. Determination of Direct Tax/Income-Based Method**

According to available data<sup>xix</sup>, the total number of persons having taxable income of more than Rs. 600,000 is around 20 million, and the tax base is approximately Rs. 200 trillion<sup>xx</sup> (after taking into account informal economy). Flat-rate taxation of just 10 percent with strong enforcement system will yield at least Rs. 20 trillion under income tax alone from individuals. (Data for this estimation is available at **Appendix C**).

As per study of the Tax Reform Commission headed by Masoud Ali Naqvi, "in Pakistan the corporate tax rate is much higher than other countries in the region. The average rate of tax on the corporate incomes in the Asian region is 22.89% whereas in Pakistan due to multiplicity of the taxes for the corporate sector it can even go up to 50% (29% normal tax +1-10% super tax +2% Workers' Welfare Fund + 5% Workers' Participation Fund)".

At present, Pakistan has one of the highest corporate tax rates in the world that were to be reduced gradually from 34% to 20% but through Finance Act 2019 restricted to 29%, plus 15% to 25% on dividend (which is actually a case of double taxation), super tax of 1% to 10% for companies having income between Rs. 150 million to Rs. 500 million, 2% Workers Welfare Fund plus 5% Workers' Participation Fund). Banks are taxed at 39% plus all other taxes mentioned for ordinary companies with super tax rate of 10%). Corporate tax of some other countries are: Australia 30%, Austria 23%, Bangladesh 22.5%, China 25%, Japan 15%, Singapore 17%, Cyprus 12.5%, Greece 22%, Malaysia 24%, Netherlands 25.8%, India 22%, Thailand 20%, Turkey 25%, United Kingdom 25%, Vietnam 20%, Indonesia 22%, Mauritius 15% and Zimbabwe 25%.

Pakistan must follow low-tax countries to induce more investments through new companies that elicit public offerings. In order to have more listed public companies, lower rates are a prerequisite. 20% flat tax on corporate sector will encourage people to corporatize business and avail credit facilities from banks. It will promote documented economy and generate employment.

## Chapter 2: Case for Harmonized Value Added Tax

*“On the revenue side, the biggest challenge was extremely adverse impact of the declining oil prices adversely affecting the most important contributor to revenues from the oil and gas sector and its numerous upstream and downstream activities. The rapidly falling inflation and consequent decline in the projected nominal GDP further compounded the tax revenue problems. The combined effect of these factors was an estimated shortfall in FBR collections of Rs. 205 billion—a fall from Rs. 2810 billion to Rs.2605 billion”<sup>xxi</sup>*

### A. Introduction

Pakistan is in dire need of revisiting its fiscal policy in a holistic fashion. Presently, the powers to collect major taxes are concentrated in the hands of the federal government. Even the country’s 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 independence<sup>xxii</sup>. This issue was never raised by any province during the deliberations for 18th Constitutional Amendment or 7th National Finance Commission Award<sup>xxiii</sup>. The provinces have also shown apathy to devolve administrative and fiscal powers to local governments despite clear command contained in Article 140A of the constitution.

Ideally, as in many other federations, the provinces should have the exclusive right to levy indirect taxes on goods and services within their respective administrative boundaries. The 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 failed to reduce the burgeoning fiscal deficit that reached Rs. 7.2 trillion in fiscal year



2023-24 from Rs. 1.8 trillion during the fiscal year 2013-14—the first year of return to civilian rule<sup>xxiv</sup>.

The figures for the last few years are horrifying. In fiscal year 2022-23, the fiscal deficit was 7.7% of GDP (Rs. 6.52 trillion) and for fiscal year 2021-22, it was 7.9% of GDP (Rs. 5.25 trillion). Had tax expenditure been curtailed by 50% and wasteful expenses at 40%, the fiscal deficit for both the years would have been around 6% of GDP. It was 7.1% in fiscal year 2020-21. In **Tax Expenditure Report 2023**<sup>20</sup> FBR has admitted that out of total tax expenditure of Rs. 3879 billion in tax year 2023, sales tax was highest at Rs. 2859 billion (40%), followed by income tax at Rs. 477 billion (6.6%) and customs at Rs. 544 billion (7.5%). It was 54.15% of FBR's total tax collection of Rs. 7164 billion and 4.6% of the GDP as compared to 3.4% in fiscal year 2021-22. Cumulatively, the Government of Pakistan Democratic Movement (PDM) gave tax exemption of Rs. 6 trillion in fiscal years 2022-23 and 2023-24. It may be recalled that government of Pakistan Tehreek-i-Insaf (PTI) gave Rs. 2.12 trillion in tax exemptions during its first two years in power.

Sales tax administration, both at federal and provincial levels as exist today is neither helping the government to harness actual revenue potential, nor helping taxpayers in terms of ease of doing business. In fact, the problems of taxpayers have increased multi-fold since the establishment of provincial revenue authorities<sup>xxv</sup>. There are still many unresolved issues between the provinces and the centre, as well as between the provinces. In this scenario, harmonized sales tax (HST<sup>xxvi</sup>) or unified sales tax on goods and services can be an answer<sup>xxvii</sup>.

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<sup>20</sup> Directorate General of Revenue Analysis, *Tax Expenditure Report 2024*, Federal Board of Revenue, [https://download1.fbr.gov.pk/Docs/2024791472531156TaxExpenditureReport2024\\_09.07.2024.pdf](https://download1.fbr.gov.pk/Docs/2024791472531156TaxExpenditureReport2024_09.07.2024.pdf)

When the first edition was published, we reported:

In 2011-12, there were about 62,000 total domestic registrants with sales tax department, of which there were 8,174 retailers and 53,314 wholesalers (Appendix B). This implies that sales tax registrants in wholesale & retail trade were more than 24 percent of sales tax base in 2011-12, up from 18 percent in 2001-02. *Considering* that there are nearly two million wholesalers & retailers in the country, the share of wholesale & retail sales tax registrants presently is less than 5 percent. This effectively means that like various other sectors, the revenue contribution by wholesalers & retailers is also very dismal. As a whole, the wholesale & retail sector contributed around 0.5 percent in total federal taxes, which is quite low as compared to its share in GDP (Appendix B). This reflects a huge tax gap, even if we ignore the mammoth size of parallel economy.

Quite naturally, therefore, **“the collection of sales tax has been highly concentrated in a few commodities. This is confirmed by the fact that petroleum products alone contributed around 50% on average for the last decade around 40 percent of the total sales tax domestic collection. A handful of 10 items including POL and natural gas shared 73 percent of the total net sales tax domestic<sup>xxviii</sup>”** in 2015”.

The effective<sup>xxix</sup> sales tax rate for total domestic sales is 5.7 percent. This rate is 7.81 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 5.7 percent”.

The following itemized facts for fiscal year 2022-23 (data for tax year 2023-24 yet not released by FBR) expose the narrow base of sales tax and lack of enforcement:

- **Net collection under sales tax: Rs. 2591 billion. Of which:**
  - Imports: Rs. 1593 billion
  - Domestic: Rs. 998 billion
- **Sales tax collection on electrical energy:** Rs. 223 billion (17.5%)
- **Sales tax collection on POL products:**
  - Domestic: Rs. 152 billion (11.9%)
  - Imports: Rs. 299 billion (18.8%)
- Out of total 225,000 registered taxpayers only 146,250 (67%) filed returns and only about 55,000 (less than 25% of registered persons and 0.23% of total population of the country) paid any tax.
- Out of the total domestic sales tax collection of Rs. 998 billion, more than 89 percent was paid by less than 400 entities. In other words, only 0.19 percent of the registered taxpayers contributed more than 89 percent of sales tax.

As with the case of income tax, one of the main reasons behind massive non-compliance of sales tax in Pakistan is higher compliance cost to businesses. It takes over 500 hours (per year) to pay sales tax in Pakistan as opposed to world average of 108 hours<sup>xxx</sup>. On the other hand, VAT compliance cost in other developing 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 behind the high cost of compliance is the multiplicity of sales tax rates. It is because rate differentiation entails the need to ensure that products are correctly categorized. At the

same time, multiple tax rate system increases opportunities for avoidance, and therefore increases the costs to government of administering the value-added system [Pakistan lacks VAT in its real essence, it is a mix of VAT and classical sales tax not catering for input/output tax adjustment]. It is empirically established 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<sup>xxxi</sup>.

Rate differentiation has also increased illegal input tax adjustments and inadmissible refunds in Pakistan. As a result, the sales tax-gap that was estimated to be Rs. 755 billion in 2012 increased threefold in 2023 and fourfold in 2024. The effective rate at present is not even 2%. In 2012, it was 3.9% as opposed to the then statutory rate of 17 percent<sup>xxxii</sup>. The extent of illegal input tax adjustment and inadmissible refunds can be gauged from the fact that increase in export sales in 2011 and 2012 was 37.36 percent and 31.56 percent over the base year of 2010, while increase in related sales tax refunds was 114.32 percent and 82.21 percent in these years. This trend continues till 2024 though official figures are not available.

Multiple rates are often justified on equity grounds. However, multiple sales tax rate system has not contributed to maintain equity in Pakistan. Empirical evidence shows that the sales tax incidence at the bottom 20 percent appeared to be very high. While this increased further for the middle classes, it came down for the richest segments of the population between the years 1991 to 2002. This suggests that the sales tax burden borne by the poor and the middle class is proportionately higher compared to the burden borne by richer segment of the population.<sup>xxxiii</sup>

As a result of these pervasive problems, the existing sales tax regime<sup>xxxiv</sup> at federal level is a failure; neither the collection is as per actual potential [See **Appendix B**], nor the goal of ease of doing business has been achieved<sup>xxxv</sup>. Since the inception of Tax Administration Reforms Programme (TARP), FBR has 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. Despite having both money and expertise, FBR could not introduce an effective automated tax intelligence system to bridge the huge tax gap. At the end of TARP, the tax-to-GDP ratio nosedived to 8.8 percent from 9.4 percent in the year when the programme started. [**Appendix C**].

At the completion of TARP, the World Bank, in its report titled **“Implementation, Completion and Result Report”** 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 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 in Pakistan, 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 that the complex sales tax system currently in place is not viable in Pakistan’s peculiar milieu. As a result of the issues highlighted above, the effective collection rate under sales tax has been reduced to around 1.8

percent, against the standard rate of 18 percent. In this light, it is advised that single-digit value added tax at the rate of 8 percent be imposed across the board.

The World Bank in its Project Information Document (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 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). <sup>1</sup>Only incomes above PKR 10 million (around 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 1** 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 above in World Bank's report is reproduced as under:

**Table 2: Taxpayers registered with FBR in FY 2017/18**

	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

The figures quoted by World Bank are also different from those quoted by FBR in *FBR Year Book 2018-19*. The latest position of sales tax registered persons and those paying taxes is discussed in Part II.

## B. Case for HST

In the wake of 18th Constitutional Amendment, fiscal management, both at federal and provincial levels 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.

In these circumstances, Pakistan needs a paradigm shift in tax policy and revamping of the entire tax administration by establishing National Tax Agency (NTA)<sup>xxxvi</sup>. Through consensus and democratic process, all the parliaments can enact laws for establishing the NTA, which can be an autonomous body comprising specialists and professionals that would facilitate people to deal with a single body rather than multiple agencies at national, provincial and local levels. The working of NTA can be discussed and finalised under Council of Common Interest [Article 153]. The control of NTA should be under the National Economic Council [Article 156].

The introduction of single-digit value added tax of 8 percent by federal government and ultimately the introduction of Harmonized Sales Tax on Goods & Services (see blueprint at **Appendix D** based on experiences of Canada and India) may be seriously debated. Tax collection and compliance cannot be improved without introducing a low-rate value added regime and establishing the NTA.

An integrated Tax Intelligence System that can correlate VAT collection on goods and services with income tax returns and monitor all transactions should be developed. 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 created 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 Agency (<http://www.cra-arc.gc.ca/menu-eng.html>) is worth studying in this respect.



## Chapter 3: Single-Rate Customs Duty Regime

A host of issues surrounds the Customs department in Pakistan. These include but not limited to under/over invoicing and valuation rulings much below international prices. However, before one begins to discuss these issues, a quick look at the structure of taxes received under customs is warranted.

Customs duty contributed around 11.8% during fiscal year 2023-24<sup>21</sup> and 13 percent during 2022-23<sup>22</sup>. The ten major commodities that contributed 94 percent of the customs duty during fiscal year 2022-23 and 92.5 percent during 2021-22 were as under:

**Table 3: Top 10 commodities as contributor of customs duty**

Ch.	Description	Collection			Share (%)	
		FY 2022-23	FY 2021-22	Growth(%)	FY 2022-23	FY 2021-22
27	POL Products	279,842	260,272	7.5	28.9	24.9
87	Vehicles (Non-Railway)	88,989	181,449	-51.0	9.2	17.3
72	Iron & Steel	53,740	65,019	-17.3	5.5	6.2
15	Edible Oil	48,262	39,306	22.8	5.0	3.8
85	Electrical Machinery	37,463	56,590	-33.8	3.9	5.4
84	Machinery & Mechanical Appliances	37,157	50,194	-26.0	3.8	4.8
39	Plastic Resins etc.	35,631	33,259	7.1	3.7	3.2
09	Tea & Coffee	22,042	19,353	13.9	2.3	1.8
48	Paper & Paperboards	20,763	18,648	11.3	2.1	1.8
73	Articles of iron or steel	15,696	14,341	9.4	1.6	1.4
<b>Sub Total</b>		<b>639,585</b>	<b>738,431</b>	<b>-13.4</b>	<b>66.0</b>	<b>70.5</b>
<b>Other</b>		<b>329,384</b>	<b>308,563</b>	<b>6.7</b>	<b>34.0</b>	<b>29.5</b>
<b>Gross</b>		<b>968,969</b>	<b>1,046,994</b>	<b>-7.5</b>	<b>100.0</b>	<b>100.0</b>
<b>Refund/Rebate</b>		<b>37,026</b>	<b>36,300</b>	<b>2.0</b>		
<b>Net</b>		<b>931,943</b>	<b>1,010,694</b>	<b>-7.8</b>		

**Source:** FBR Revenue Division Year Book 2022-23

<sup>21</sup> Ministry of Finance, *Summary of Consolidated Federal and Provincial Fiscal Operations 2023-24*, [https://www.finance.gov.pk/fiscal/July\\_June\\_2023\\_24.pdf](https://www.finance.gov.pk/fiscal/July_June_2023_24.pdf)

<sup>22</sup> Ministry of Finance, *Summary of Consolidated Federal and Provincial Fiscal Operations 2022-23*, [https://www.finance.gov.pk/fiscal/July\\_June\\_2022\\_23.pdf](https://www.finance.gov.pk/fiscal/July_June_2022_23.pdf)

The above table clearly shows that Customs also has a very narrow base. In its 2016 report, the Tax Reform Commission (TRC) constituted by the government emphasized that **“there is a need to reform and rationalize the customs tariff keeping in view certain determined parameters.”**

While the TRC has not disclosed those parameters, its report says that “a specialized committee is currently working on the proposed parameters for rationalization of custom tariff.” The report adds that the proposed parameters and related recommendations would be finalized in due course. **The delay, it says, is mainly “due to non-availability of data on time.”** The report, however, does contain certain recommendations in respect of customs—the most important of which is “to facilitate *bona fide* importer and exporter and to reduce the abuse of powers by the Customs officials”<sup>xxxvii</sup>.

During the financial year 2013-14, FBR carried out an exercise to rationalize the import tariff structure, and to reduce the general tariff slabs from 7 to 4 in the next three years.

The following table shows coverage of tariff lines under various slabs for fiscal year 2019-20 onwards.

**Table 4: Coverage of tariff lines under various tariff slabs**

Sr.#	Tariff slab	No. of Tariff lines	No. of Tariff lines(%)
1.	0%	1639	22%
2.	3%	1132	15%
3.	11%	1064	14%
4.	16%	566	8%
5.	20%	2448	33%
6.	30%	33	0%
7.	35%	280	4%
8.	50%	41	1%
9.	55%	16	0%

Sr.#	Tariff slab	No. of Tariff lines	No. of Tariff lines(%)
10.	60%	25	0%
11.	75%	14	0%
12.	90%	17	0%
13.	100%	31	0%
14.	Specific	48	1%
	<b>Total</b>	<b>7356</b>	

**Source:** Pakistan Customs Tariff (2019-20)

The approach of TRC and FBR towards rationalizing customs tariff needs to be reconsidered. There are many chronic issues with customs. These include under-invoicing, false declarations, smuggling and valuation rulings much below international prices. These are not only causing a loss to national exchequer but also hurting open markets as evident from the following tables, taken from a presentation given by Mr. Jamil Nasir in a seminar held by Pakistan Institute of Development Economics (PIDE) on 12 March 2020 in Islamabad.

**Table 5: Expanding coverage of ACD & RD**

Year	No. of Tariff lines Where ACD charged	No. of Tariff lines Where RD charged
2015-16	5535	1309
2016-17	5741	1505
2017-18	5996	1682
2018-19	5888	1994
2019-20	5521	2075

**Source:** SROs of RD and ACD and PRAL data

Table 6: Revenue collection at import stage

Year	Total FBR Revenue Collection of FBR	Revenue collection at import stage	Revenue collection at import stage (%age)	*Part of CD in revenue collection	Part of CD in revenue collection (%age)
2014-15	2059	1023	50	306	15
2015-16	3112	1273	41	405	13
2016-17	3361	1371	41	497	15
2017-18	3844	1651	43	608	16
2018-19	3828	1732	45	686	18

Source: Various issues of Pakistan Year Book

\*It includes amount of ACD & RD as well

The major problems identified by Mr. Jamil Nasir are:

- ▶ High incidence at import stage
- ▶ Incentive for smuggling, undervaluation, mis-declaration and evasion
- ▶ Smuggling known phenomenon– ATT
- ▶ Undervaluation– trade gap between Pakistan and China

At the seminar held by PIDE, Mr. Jamil Nasir presented the following historic data:

Table 7: Customs Tariff Revenue Historical Data

*Rs. in million*

YEAR	Total duty	Effective Rate (CD)	Effective Rate (CD+ACD+RD)	Tariff Weighted Average (TWA)
1997-98	74496	17.07	17.07	40.69
1998-99	65292	14.01	14.01	23.13
1999-00	61659	11.55	11.55	23.12
2000-01	65047	10.37	10.37	20.62
2001-02	47818	7.53	7.53	17.39
2002-03	68,836	9.64	9.64	16.71

YEAR	Total duty	Effective Rate (CD)	Effective Rate (CD+ACD+RD)	Tariff Weighted Average (TWA)
2003-04	91045	10.14	10.14	13.02
2004-05	115374	9.43	9.43	13.00
2005-06	138384	8.09	8.09	12.71
2006-07	132299	7.14	7.14	12.11
2007-08	150663	5.99	6.00	9.50
2008-09	148403	5.33	5.45	9.88
2009-10	160273	5.37	5.51	10.20
2010-11	184853	5.24	5.35	9.02
2011-12	216906	5.34	5.41	9.02
2012-13	239459	5.42	5.50	9.41
2013-14	242811	5.16	5.24	8.92
2014-15	306220	6.08	6.59	9.58
2015-16	404572	7.39	8.68	10.09
2016-17	496772	7.42	8.97	10.90
2017-18	608325	7.04	9.09	10.90
2018-19	684000	6.72	9.12	10.90

The corrective measures suggested by Mr. Jamil Nasir are:

- ▶ Strategic protection time-bound with clear sunset date.
- ▶ All species of import duties and taxes at import stage should be phased out for input goods; Zero- duty through tariff code preferable compared to exemptions through SROs.
- ▶ A lot of room for enhancing CEF through better enforcement, more use of machine, and greater coverage of green channel.

In Pakistan, many thousand valuation rulings have been issued by custom authorities, under section 25 of the Customs Act, 1969. By comparison, in India no more than 10 valuation rulings under comparable section 14 of Indian Customs Act have been issued. The discretionary powers available to Director of Customs

Valuation are often reported to be abused, whereas powerful sections in trade use money and influence to get favorable rulings.

There is no provision to fix standard prices of any goods or class of goods under section 25A, under which the power is not exercised on a consignment-to-consignment basis with presentation of declaration under section 79 of the Customs Act. The prevalent practice of resorting to the old procedure of fixation of International Trade Price (ITP) is also void and against the provisions of section 25 of the Customs Act, 1969<sup>xxxviii</sup>.

The single rate of customs duty for all items can eliminate the menace of smuggling, arbitrary and/or favorable valuations, complicated registration processes as well as the SRO-ridden system.

## Chapter 4: National Tax Agency

### A. Introduction

Given the lacunas, duplications and shortfalls in Pakistan's tax collection, it is proposed that all tax collection agencies in Pakistan are dismantled and merged into a single entity called National Tax Agency (NTA), to ensure effective enforcement of tax laws both at federal and provincial levels.

NTA that ought to be set up on modern lines, staffed with competent and effective professionals, should have representations of all constituents of the federation of Pakistan. With nation-wide data in one place and centralized processing, the NTA will certainly be able to compel all taxable persons to file tax returns and pay their dues under various tax codes.

The NTA must replace FBR and all ineffective provincial revenue authorities that have failed to collect revenues according to their potential indicating a high level of tax gap. For example, provincial revenue boards have not been collecting agricultural income tax (AIT), imposed since 2000 and now as per condition accepted under 37-month IMF's EFF programme they would have to collect AIT at the same rate as federal income tax rates with effect from 1 July 2025. Similarly, provincial excise and taxation departments are not collecting taxes to their optimal potential. Likewise, the capacity of Punjab Revenue Authority, Sindh Revenue Board, Khyber Pakhtunkhwa Revenue Authority and Balochistan Revenue Authority to tax all taxable services are quite inadequate.

The case for having a new and single tax collection agency is strengthened by the World Bank's assessment of FBR's credibility and usefulness as an organization. (Its overall poor performance in tax collection is evidenced in **Appendix A & B**. 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 tax-to-GDP ratio despite a swift turn-around in project implementation and concomitant positive trends in some outputs by the last two years of project life.”

The report pointed 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. The World Bank also noted that **“performance from 2008 onwards, was far from the project’s objectives envisioned at the outset.”** At the end of TARP, sales tax and income tax indicators were extremely poor.

Time and again, it has been emphasised by us that Pakistan needs a new modern, automated, efficient and taxpayer-friendly federalised tax agency, detail given in ‘**Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms**’ [*Business Recorder*, August 31, 2018] wherein viable solutions were offered for its establishment in subsequent follow up articles. Strangely, the World Bank has not acknowledged it in any of its papers/reports related to US\$ 400 Pakistan Raise Revenue<sup>23</sup> Project, though presenting the same concept. It is worth mentioning that the idea of National Tax Agency (NTA) was given way back in 2013 in Need for National Tax Agency<sup>24</sup> [*Business Recorder*, November 1, 2013],

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<sup>23</sup> World Bank Group, *Press Release: Pakistan’s Ambitious Efforts to Raise Domestic Revenue Receive World Bank Support*, June 13, 2019, <https://www.worldbank.org/en/news/press-release/2019/06/13/pakistan-ambitious-efforts-to-raise-domestic-revenue-receive-world-bank-support>

<sup>24</sup> Huzaima Bukhari and Ikramul Haq, “Need for National Tax Agency,” *Business Recorder*, November 01, 2013, <https://epaper.brecorder.com/2013/11/01/19-page/386962-news.html>



Revamping tax system<sup>25</sup>, [The News, December 7, 2014] and Abolish pro-rich tax regime<sup>26</sup> [Huzaima & Ikram 2014].

The idea of NTA was not only elaborated in Tax proposals—VII: Need for NTA<sup>27</sup>, *Business Recorder*, May 22, 2015, and Case for “NTA”, *Business Recorder*, November 27, 2015, but its draft law was also included in *Towards Flat, Low-rate, Broad and Predictable Taxes*<sup>28</sup> [Prime Institute, April 2016]. It was suggested that the NTA must be run by an independent and competent Board and its members should be selected by the Joint Committee of Senate and National Assembly. NTA should not only collect taxes at all tiers of government but also disburse benefits like social security, food stamps, universal pension, healthcare coverage and income support etc.

The linkage of database of various bodies with NTA (comprehensive digitisation) has been stressed upon time and again as a necessary step towards e-government model for the country that is presently non-existent. The models of Swedish revenue authority [Skatteverket] and Canadian Revenue Authority (CRA) have been suggested as worth studying/adopting after debate and suggesting necessary modifications suiting our peculiar conditions [Tax reforms strategy<sup>29</sup>, *The News*, December 3, 2017, and Comprehensive Tax reforms<sup>30</sup>, *The News*, September 9, 2018].

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<sup>25</sup> Huzaima Bukhari and Ikramul Haq, “Revamping Tax System,” *The News*, December 07, 2014, <https://www.thenews.com.pk/tns/detail/557614-revamping-tax-system>

<sup>26</sup> “Abolishing Pro-Rich Dr. Ikram Final Study 1,” Scribd, accessed November 6, 2024, <https://www.scribd.com/document/408515820/Abolishing-Pro-Rich-Dr-Ikram-Final-Study-1>

<sup>27</sup> Huzaima Bukhari and Ikramul Haq, “Tax proposals for Budget 2015-16—VII Need for an NTA,” *Business Recorder*, May 22, 2015, <https://epaper.brecorder.com/2015/05/22/3-page/506493-news.html>

<sup>28</sup> Ikramul Haq and Huzaima Bukhari, *Towards Broad, Flat, Low-rate and Predictable Taxes*, 2<sup>nd</sup> ed. (PRIME Institute, 2020).

<sup>29</sup> Ikramul Haq and Huzaima Bukhari, “Tax Reforms Strategy” *The News*, December 03, 2017, <https://www.thenews.com.pk/tns/detail/564494-tax-reforms-strategy>

<sup>30</sup> Ibid.

## B. Proposed Structure of NTA

The National Tax Agency or with any other name should be established on the pattern of Canada Revenue Agency, where it should not only be responsible for collection of taxes for federal, provincial and local governments but also administer various social and economic benefits and incentive programmes delivered through the tax system. It is important that these schemes which may include social security, disability allowance, income support, child support, and pension are formulated and identified; otherwise, tax compliance would become a distant dream.

One of the salient features of NTA would be its 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.

NTA's Board of Management would consist of 15 members, three each to be nominated by each of the provinces, and the rest by the central government. The Board would have the responsibility of overseeing NTA's organisation and management. The Chief Executive Officer of the NTA, being a member of the Board, elected by majority of members, would be responsible for NTA's day-to-day operations. NTA Board would have no role in legislation, which under the Constitution of Pakistan is in the exclusive domain of the national and provincial assemblies.

The guiding principles of NTA would be:

- **Integrity:** This would be the foundation of administration to ensure that citizens are treated fairly through fair application of the law.

- **Professionalism:** Key to success in achieving the mission, and demands being committed to the highest standards of achievement.
- **Respect:** The basis for dealings with employees, colleagues, and clients. It also means being sensitive and responsive to the rights of individuals.
- **Co-operation:** The foundation for meeting challenges of the future by building partnerships and working together toward common goals.

At present, both the Centre and provinces are not collecting taxes diligently, and the same is the case where local governments are elected and operating. The country's tax potential at federal level alone at 17% of GDP is Rs. 34 trillion if tax base of Rs. 200 trillion that includes both documented and informal economy, is taken into account. If agricultural income tax and other provincial and local taxes are also collected efficiently, the total figure at national level would be around Rs. 40 trillion.

NTA is the need of the hour to harness the full tax potential at federal, provincial and local government levels. Through consensus and democratic processes, all the parliaments can enact laws for establishing the autonomous NTA that can facilitate people to deal with a single revenue authority 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 Interest [Article 153] and its control can be placed under National Economic Council [Article 156].

## Chapter 5: National Tax Court

### A. Introduction

All the major tax codes<sup>31</sup> of Pakistan provide grievance redressal mechanisms for taxpayers and Tax Department against the orders of tax officials and appellate authorities.

With the exception of Customs Act, 1969, from May 3, 2024, the right of appeal before the Commissioner of Appeals against orders of the first adjudication authority up to Rs. 20 million is available to the taxpayers. Against the order of the first appellate authority, now appeal/reference lies directly in the High Court by-passing the Tribunal. This is because it is not uncommon that tax authorities are aggrieved at the relief granted by the first appellate authorities to taxpayers, and a higher appellate forum (High Court) to examine the correctness of relief given by an appellate authority is justified.

Under the Customs administration, the old four-tier tax appellate system is retained. Against the order of first adjudicator, appeal under the Customs Act, 1969 lies with Collector of Adjudication. Both the Department and taxpayers, aggrieved by the order of Collector of Adjudication can file an appeal with the Customs Tribunal. From the order of Customs National Tax Court on any question of law, reference can be filed in the High Court. Further appeal lies in the Supreme Court by way of leave to appeal.

The appellate mechanism under the tax codes administered by Inland Revenue Service (IRS) provides the right to appeal before the Commissioner of Appeals in case a taxpayer is aggrieved by orders passed by the revenue authorities having impact up to Rs. 20

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<sup>31</sup> Income Tax Ordinance, 2001, Sales Tax Act, 1990, Federal Excise Act, 2005 and Customs Act, 1969

million. In case it is above Rs. 20 million, the taxpayer can file the appeal before the Appellate Tribunal Inland Revenue (ATIR).

The Income Tax Tribunal in the sub-continent was established on January 25, 1941. On October 28, 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, IRS. Prior to May 3, 2024, ATIR was not only an appellate forum for the taxpayers, but it was an equally important forum for FBR when aggrieved by any relief given to the taxpayer by Commissioner of Appeals, a member of the Inland Revenue Service.

In developing economies like Pakistan, one of the biggest problems is a relatively small tax base and the reluctance of ordinary citizens to file tax returns. 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.

## **B. National Judicial Policy**

The following points merit consideration for effective and meaningful implementation of directions given in the National Judicial Policy (NJP) 2009<sup>32</sup>:

1. Existing four-tier appeal system under the Customs Act, 1969 and three-tier under tax laws administered by IRS consume 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

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<sup>32</sup> Law and Justice Commission of Pakistan, *National Judicial Policy, Revised Edition 2012*, [https://www.supremecourt.gov.pk/downloads\\_judgements/all\\_downloads/National\\_Judicial\\_Policy/NJP2009.pdf](https://www.supremecourt.gov.pk/downloads_judgements/all_downloads/National_Judicial_Policy/NJP2009.pdf)

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 four-tier Customs appellate system lies before the Collector of Adjudication working under the administrative control of FBR. In taxes administered by IRS, it lies with Commissioner of Appeals if order of adjudicator has impact up to Rs. 20 million and beyond that amount before the ATIR. This is a travesty of justice: an aggrieved taxpayer is to seek relief from the departmental authorities or from members working under the Ministry of Law and Justice. In view of this fact alone, the appeal before departmental officers should be abolished immediately.
3. The Tax Tribunals (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" as highlighted in Para 5 of NJP 2009.
4. Working as single, double or full (in special cases) benches, members of the Tax Tribunals are chosen from the legal fraternity or judicial services (Judicial Member) and the tax department (Accountant Member or Technical Member). The latter have little or no incentive to work in their respective positions, as they are mostly deputed against their consent. This negatively impacts the functioning of the tribunal. In view of this, Tax Tribunals should work under direct supervision of the Supreme Court and appeals against their decisions should go directly to the Supreme Court.

4. After merging the Appellate Tax Tribunal Inland Revenue and Customs Tribunal, the new entity should be renamed as **National Tax Court** (NTC). Appeals against the orders of the National Tax Court should lie with the Supreme Court alone by way of appeal of certification of the NTC. Members of the Tax Court should be recruited in the same manner as judges of High Court.
5. Tax codes are federal statutes but references/appeals against orders of the Tribunal go to the High Courts that operate within provincial jurisdictions. In practice, therefore, a person filing reference/appeal in Lahore High Court may get a different order on an identical question of law filed in Sindh High Court. Usually, even on identical issues, there is no certainty of uniform orders at the level of High Courts. It is hence advisable to place the National Tax Court directly under the Supreme Court.
6. The final court of appeal remains the Supreme Court that decides the fate of any disputed legal issue requiring interpretation of law. If the National Tax Court is established, there will be drastic reduction in litigation.

Without any iota of doubt, the three-tier and four-tier appellate tax structure discussed above has become outdated, ineffective and is 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 be filed directly in National Tax Court, and for final adjudication the matter should be put before the

Supreme Court. If the two-tier tax appellate system is implemented, the following benefits and advantages will emerge:

- Appeal Commissioners/Adjudication Collectors will be relieved of passing biased judgements and worrying about the future of their careers.
- Existing Tax Tribunals after their conversion into National Tax Court 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.

### C. Draft for National Tax Court

Like all other judicial institutions, the tax appellate system should be independent in the true sense of the word. The 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.”** This should be equally applicable to tax appellate system. In order to implement it, a proposed draft for the National Tax Court is given at **Appendix E** that may be tabled in the parliament for approval from both the houses.



## Conclusions

1. If we want fair and optimum collection of taxes, without hampering growth, then it is imperative to abolish the existing set of complex tax laws and enact new ones based on simple flat, low-rate taxation.
2. Collection of taxes through a single national authority is the need of the hour.
3. It is important to establish a Tax Intelligence System that sends quarterly information to potential taxpayers about their economic activities, so they can be informed in advance as to how their incomes and expenditures should finally look like in their tax declarations.
4. Prudent spending of public money through a transparent process is critical to ensure that the collection agency enjoys the people's confidence.
5. Narrow tax base is one of the core challenges faced by the revenue organizations at federal and provincial level. There is a marked decrease in the number of income tax filers actually paying any significant amount of tax during the last 15 years, majority are showing income below taxable limits just to avoid higher incidence of withholding taxes. In 2006, the number was 2.1 million<sup>33</sup> that decreased to 1.1 million as of April 2, 2015, as per active taxpayers' list on website of FBR. For the later years, data is provided in Chapter 4. Even after imposing over 70 types of withholding taxes, the system has failed to capture persons paying substantial amounts as adjustable withholding income tax with telephones, electricity and cash withdrawals, etc. The higher rates of tax and unnecessary withholding taxes have

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<sup>33</sup> Jorge Martinez-Vazquez and Musharraf Rasool Cyan, eds. *The Role of Taxation in Pakistan's Revival*. (Oxford University Press, 2015), pp. 673, 676.

failed to yield desired results. As suggested in this study a wide tax base with lower tax rates is much more 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.

6. There are about 6 million wholesale & retail establishments in the country, but only a small segment (less than 5%) is registered as active sales taxpayers. Moreover, actual tax filers are only 2 percent of the overall base of the wholesale & retail sector. Wholesale & retail sector is the largest sector in respect of establishments in the country; if it pays its due taxes, it would be an immense support to the national exchequer and would enable the tax/GDP ratio to reach a reasonable level.
7. There are a number of other issues that need proper attention of the policymakers, which include weak enforcement and poor monitoring. A large number of entities remain out of the tax net due to lack of proper documentation. Therefore, 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.
8. Provincial authorities responsible for collecting sales tax on services are also facing the problems of effective enforcement. Multiple rates and exemptions are also serious causes of distortions in tax base encouraging tax evasion. It is advisable to move towards harmonized sales tax on goods and services.
9. The current sales tax regime is imposing an 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.

10. Pakistan needs to learn from experiences of other countries that are successfully administrating harmonized or unified sales tax on goods and services. Collection of all taxes, including HST, at federal and provincial levels through NTA will reduce the cost of collection of taxes. It will also help in creating a centralized data bank for efficient collection of taxes and counter avoidance and evasion. HST and Unified sales tax on goods and services, if properly administered as in Canada, Indian, and elsewhere 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.
11. Pakistan must consider Unified Sales Tax on Goods & Services in VAT mode that best suits it after taking all stakeholders on board and with their consensus. In this regards, Malaysian model of simplified GST blended with Canadian experience of HST and that of India through unified sales tax on goods and services can be the best initiative.
12. A simpler and transparent sales tax system in VAT model or end retail stage is essential for the growth of business that can lead to better collections without hassles but for which, we need a nationwide debate taking all stakeholders on board. Taxes are a by-product of growth secured through investment, ease of doing business and reducing the cost of doing business. Tax policy thus should promote growth and not stifle it. Provincial tax authorities and federal tax authorities must work under one National Tax Agency (NTA) under All-Pakistan Unified Tax Service.
13. NTA will have national databases and team of professionals for better collection countering revenue leakages at all levels and in all sectors.

14. Single rate customs duty can eliminate all the ills presently faced by the customs valuation system.
15. A meaningful tax reforms agenda, as suggested in this study, is introduction of low-rate income and harmonized/unified value added tax (VAT) on goods and services, and their collection through National Tax Agency (NTA). It would facilitate taxpayers and boost economic growth.



**PART II**



## Chapter 6: FBR's Performance- A Critical Analysis

*"My personal experience has shown that the business community genuinely wants to pay taxes but is often intimidated by the system...A rough estimate suggests that there are 119 taxes in Punjab, 82 in Sindh, 54 in Khyber Pakhtunkhwa, and 12 in Balochistan. With such a multitude of taxes, how can we possibly encourage those outside the tax net to voluntarily come forward and join a system that appears burdensome"? — **The need for tax reforms**, Kashif Anwar, former President Lahore Chamber of Commerce, *Business Recorder*, August 25, 2024<sup>34</sup>*

*"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"<sup>35</sup>.*

*"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*

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<sup>34</sup> Kashif Anwar, "The need for tax system reforms," *Business Recorder*, August 25, 2024, <https://www.brecorder.com/news/40319161/the-need-for-tax-system-reforms>

<sup>35</sup> State Bank of Pakistan, *Annual Report 2018-19—The State of Pakistan's Economy*, <https://www.sbp.org.pk/reports/quarterly/fy20/First/Complete.pdf>

*themselves up to carry out effective public financial management to improve the quality of public spending*"<sup>36</sup>.

*"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"*<sup>37</sup>.

*"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"*<sup>38</sup>.

There is a general consensus in Pakistan that the prevailing tax system is unjust, oppressive, extractive, outmoded and unproductive—with numerous high-rate taxes, yielding extremely low revenues, and operationally time-consuming, complex, cumbersome and costly. Even after making tall claims of "extraordinary improvements and initiatives" by successive governments, revenues are falling below the assigned targets and financial needs of state, debt burden rising beyond sustainability/affordability and fiscal deficit assuming alarming heights. In the fiscal year (FY) 2023-24, the ratio of tax-to- GDP was just 9.5 percent<sup>39</sup> one of the lowest in the world.

The perpetual failure of the Federal Board of Revenue (FBR) to meet the assigned targets, even when revised downwards, is highly lamentable, as it is also after blocking refunds of billions of rupees and

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<sup>36</sup> Ibid.

<sup>37</sup> Federal Board of Revenue, *FBR Year Book 2018-19*, <https://download1.fbr.gov.pk/docs/20191115911472992fbrrevenuedivisionyearbook2018-19.pdf>

<sup>38</sup> World Bank Group, *Pakistan Raises Revenue Project*, accessed November 6, 2024, <https://www.worldbank.org/en/news/loans-credits/2019/06/13/pakistan-raises-revenue-project>

<sup>39</sup> Ministry of Finance, *Summary of Consolidated Federal and Provincial Fiscal Operations 2023-24*, [https://www.finance.gov.pk/fiscal/July\\_June\\_2023\\_24.pdf](https://www.finance.gov.pk/fiscal/July_June_2023_24.pdf)



taking advances, not even due, of coming tax years. Successive governments, civilian and military alike, were least pushed to replace the outdated, oppressive and complex system and faulty tax policy with a simple, certain and low rate. On the contrary, worthy finance ministers of all the regimes were rather pressurizing tax collectors to become more and more ruthless in meeting targets, regardless of its disastrous impact on economic growth and inflation.

The performance of FBR in enforcing section 114 of the Income Tax Ordinance, 2001<sup>40</sup> requiring certain persons to file income tax returns is pathetic! It is evident from the fact that during the fiscal year 2022-2023 about 120 million individuals paid advance adjustable income of 15% as mobile users—both prepaid and post-paid—but the active **individual taxpayers** (who filed returns for tax year 2023) as per FBR's website (the list is updated on every Monday) was **3,886,709** as on September 23, 2024. The total active taxpayers as on October 21, 2024, were little over 6 million and out of them 4 million filed returns showing NIL income/below taxable limit income/loss.

**Table 8: Income Tax Returns (2007 to 2018)**

Tax Year	Returns (in millions)
2007	2.1
2008	1.57
2009	1.72
2010	1.64
2011	1.57
2012	1.69
2013	0.94
2014	1.10
2015	1.26
2016	1.56
2017	1.89
2018	2.85

<sup>40</sup> Federal Board of Revenue, *Income Tax Manual Part I*, <https://download1.fbr.gov.pk/Docs/2024751675120641IncomeTaxOrdinance,2001-amended-upto30.06.2024.pdf>

On the basis of above data (after 2018, FBR has not disclosed officially returns received for any tax year), it is proved that most of the new filers in tax year 2018 contributed negligible or zero tax with returns just to be on Active Taxpayers List (ATL) to take benefit of waiver or lower tax under withholding tax regime. The same was the case for tax year 2017 as delay in publishing tax directory gave a chance to FBR to include all the returns filed for tax year 2017 till February 21, 2019—long after the last date of filing of returns for all categories of the taxpayers, namely, companies, Association of Persons (AOPs) and individuals. FBR has been claiming success in broadening the tax base, but in reality, it has even failed to regain its lost return filers of over one million since 2007. FBR stalwarts need soul-searching to find out what has gone wrong and where these taxpayers have vanished. Wrong policies, especially excessive reliance on withholding taxes, are showing devastating effects. High indirect taxation and excessive burden of withholding taxes are proving detrimental for economic growth. Now there is defiance on a mass scale as evident from decreasing number of filers and massive tax evasion in withholding tax regime. From Year Book 2018-19 onwards, FBR has not published sector wise data of income tax filers. The figures available from tax year 2013 to 2017 are reflected in the table below.

**Table 9: Sector wise IT Returns**

Sr.	Sector	TY-2013*	TY-2014*	TY-2015*	TY-2016*	TY-2017*
1	Asset Management	15	15	14	14	13
2	Autos	1,796	1,694	1,630	1,579	1,429
3	Banking	115	115	113	109	98
4	Beverages	145	132	132	129	115
5	Building Construction	1,140	1,127	1,115	1,043	885

Sr.	Sector	TY-2013*	TY-2014*	TY-2015*	TY-2016*	TY-2017*
6	Capital	11	11	10	10	9
7	Cement	105	99	98	91	80
8	Chemical	1,302	1,249	1,243	1,210	1,104
9	Electronics	1,285	1,213	1,211	1,163	1,038
10	Fertilizers	84	73	64	59	51
11	Food Products	5,187	4,660	4,562	4,408	3,910
12	Foundation	458	459	450	422	360
13	Fund Management	215	215	213	194	185
14	Hotels	605	532	525	531	485
15	Insurance	828	749	735	727	649
16	Investment	112	107	109	106	103
17	Iron & Steel	1,448	1,357	1,331	1,294	1,180
18	Leasing	1,649	1,581	1,537	1,482	1,324
19	Leather	1,188	1,127	1,090	1,053	983
20	Modaraba	29	30	30	30	27
21	Oil & Gas	1,239	1,180	1,136	1,107	988
22	Others	633,2	720,46	787,380	863,85	754,2
23	Paper	1,699	1,616	1,564	1,515	1,326
24	Pesticides	117	120	119	120	105
25	Pharmaceuticals	1,286	1,242	1,221	1,192	1,081
26	Plastics	1,593	1,467	1,423	1,381	1,228
27	POL	968	939	910	869	801
28	Power	356	357	347	339	310
29	Salary	242,1	326,19	423,014	474,52	436,8
30	Securities	264	269	268	263	234
31	Services	23,06	22,168	21,174	20,196	18,00

Sr.	Sector	TY-2013*	TY-2014*	TY-2015*	TY-2016*	TY-2017*
32	Sugar	104	100	100	99	86
33	Telecom	809	786	755	718	616
34	Textile	10,05	9,465	9,173	8,832	8,159
35	Tobacco	96	87	91	90	75
36	Trusts	1,008	1,005	980	940	797
		<b>935,776</b>	<b>1,103,944</b>	<b>1,265,867</b>	<b>1,391,695</b>	<b>1,238,906</b>

\* The numbers for each tax year represent the returns filed till February 15, 2018.

\*For tax year 2017, the number of returns filed are for 8 months (1-07-2017 till 15-02-2018)

\*For tax year 2016, the number of returns filed are for 20 months (1-07-2016 till 15-02-2018)

In later years<sup>41</sup>, the number of returns increased but millions filed below taxable or nil returns just to avoid withholding and/or higher rate of withholding taxes used as penal measure by FBR for non-filers, later in 2019 abolishing this term and mentioning those who do not appear in Active Taxpayers List (revised from time to time).

Out of total 6,091,912 (little over six million) active income tax returns filers as on October 21, 2024, 3.5 million showed nil income or income below taxable limit.

It is a fact that nearly 70 percent of the “filers” (sic), show NIL income or below taxable limit, just to avoid higher rate of withholding tax applicable to persons not appearing on active taxpayers’ list (ATL)! The total number of return filers as per ATL updated by FBR on October 21, 2024, was 6,091,812 out of which

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<sup>41</sup> Ikramul Haq, “Punishing The Non-filers!” *The Friday Times*, September 27, 2024, <https://thefridaytimes.com/27-Sep-2024/punishing-the-non-filers>.

individuals were 4,235,198 and rest 1,856,614 were Association of persons (AOPs), firms and companies.

According to Pakistan Telecommunication Authority (PTA), the total cellular/broadband subscribers as on June 30, 2024, were 193 million (79.44% mobile density), 135 million mobile broadband subscribers (55.61% mobile broadband penetration), 3 million fixed telephone subscribers (1.06 teledensity) and 138 million broadband subscribers (57.05% broadband penetration).

The latest figures available for August 30, 2024, show: total cellular/broadband subscribers 193 million (79.40% mobile density), 139 million mobile broadband subscribers (56.96% mobile broadband penetration), 3 million fixed telephone subscribers (1.10 teledensity) and 142 million broadband subscribers (58.44% broadband penetration)<sup>42</sup>.

Around 120 million unique mobile users paid advance/adjustable income tax during the FY 2022-23 while 100 million had no income or income below the taxable limit! FBR failed to register all taxable individuals—their number cannot be less than 20 million based on available data for FY 2022-23 with telecoms about their handsets, travelling history and quantum of bills etc. Had FBR done this, the monstrous tax gap in income tax filers could have been bridged, eliminating the self-created category of “non-filers”! Thus, registering of the entire taxable population and making them return filers was, in fact, deliberately avoided by FBR to retain a justification for extorting 75% oppressive advance income tax from the poorest of the poor mobile users having no taxable income.

The above figures prove beyond any doubt that with effect from July 1, 2024, the entire taxable population and even those having no income or income below taxable limit are paying advance and

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<sup>42</sup> Pakistan Telecommunication Authority, *Telecom Indicators*, <https://www.pta.gov.pk/category/telecom-indicators>

adjustable 15% income tax as filers and 75% as non-filers, being prepaid or postpaid mobile/broadband users. In the face of this undeniable factual position, under what logic and justification, FBR and those who are part of their bandwagon are labelling Pakistanis as tax cheats?

It may be highlighted that what keeps the general public, especially small traders, away from FBR is naked and brutal abuse of sections 122(5A) and 177 of the Income Tax Ordinance, 2001 to extract maximum revenue from existing taxpayers, which further alienates compliant taxpayers, increasing public discontent. It calls for reconsideration of FBR's approach to tax collection, moving beyond outdated practices and focusing on modernizing the system. Key initiatives include implementing advanced automation systems and developing a centralized database to improve audit efficiency and data accuracy.

It is clear from the above that the real problem is faulty tax system and crisis of competence in FBR. In fiscal year (FY) 2023-2024, against the assigned target of Rs. 9415 billion, FBR collected Rs. 9311 billion. According to the Summary of Consolidated Federal and Provincial Fiscal Operations, 2023-24<sup>43</sup>, FBR collected Rs. 4.53 trillion as direct taxes, Rs. 3.99 trillion as sales tax, Rs. 1.10 trillion as custom duties and Rs 577.4 billion as federal excise duty. It is well-established that many withholding tax provisions in Income Tax Ordinance, 2001 bear the nature of indirect taxes that not only adversely affect salaried class and the poor but are also among the factors triggering high inflation that reached 31.5% in February 2023.

Dozens of high-rate taxes and non-tax levies, both at federal and provincial level, yielded the low revenues at national level of Rs.

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<sup>43</sup> Ministry of Finance, *Summary of Consolidated Federal and Provincial Fiscal Operations 2023-24*, [https://www.finance.gov.pk/fiscal/July\\_June\\_2023\\_24.pdf](https://www.finance.gov.pk/fiscal/July_June_2023_24.pdf)

13.27 trillion against total expenditure of Rs. 20.48 trillion. This is our real malady and dilemma.

In the FY 2023-24, debt servicing alone was Rs. 8.159 trillion. The federal government had net revenues (tax and non-tax) of Rs. 7.079 trillion, after transferring Rs. 5.263 trillion to the provinces. It borrowed funds of Rs. 1080 billion to meet burgeoning shortfall in debt servicing—thus entire defence expenditure of Rs. 1.859 trillion and other expenses were met from expensive borrowed funds.

Obviously, the government is least pushed to go for lower taxes with broader tax base. Unless, it is done, collection will remain far below the actual potential that is not less than Rs. 34 trillion. The entire business climate is destroyed by employing over 70 provisions with respect to advance/withholding taxes, easy collection from petroleum products and big firms. Failure to harness real tax potential is the main problem.

Pakistan's real dilemma is that the rich and mighty are not paying taxes according to their ability. In tax years 2022 and 2023, less than 4000 persons paid tax between Rs 1,000,000 and Rs. 10 million. In tax year 2023, less than 5000 individuals declared tax of over Rs 10 million, and position will worsen in tax year 2024. The higher taxes imposed through Finance Act 2024 will further incentivize people to avoid/evade taxes!

In Pakistan, the ultra-rich are avoiding tax obligations, but millions having no income or incomes below taxable limit, and middle-income salaried persons are being forced to pay advance income tax and denied their rightful refunds, in gross violation of Article 4(c) of the Constitution that says: **"no person shall be compelled to do that which the law does not require him to do"**.

## A. Tax Findings of World Bank and FBR

The World Bank in its report, *Pakistan Revenue Mobilization Project*<sup>44</sup>, 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).*

## B. FBR's Performance Evaluation

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, but it has also been single handedly destroying Pakistan's growth by anti-business actions. All the Finance Ministers of successive governments 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 successive governments 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.

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<sup>44</sup> Clelia Kalliopi Helena Rontoyanni, *Project Information Document - Pakistan Revenue Mobilization Project - P165982*, World Bank Group, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>



## C. FBR's Quest for Reforms & Modernization

*"We need to lower tax rates for everybody, starting with the top corporate tax rate. We need to simplify the tax code. The ultimate answer, in my opinion, is the fair tax, which is a fair tax for everybody, because as long as we still have this messed-up tax code, the politicians are going to use it to reward winners and losers"*—**Herman Cain**, US ex-presidential candidate and entrepreneur, who died of Covid-19 on July 31, 2020.

The Federal Board of Revenue (FBR) in 2021 launched a comprehensive initiative for reforms and modernization for which a separate wing and full-time Member Reforms and Modernization was appointed. It was a positive move but failed to involve all the stakeholders. It remained a closed-door bureaucratic exercise as was done in the past. Now, the incumbent alliance government has decided to roll it back. Unfortunately, as expected the process was confined to administrative reforms or patchwork here and there in tax codes, rather than a paradigm shift in tax policy for Pakistan to achieve the objectives highlighted in **OECD Tax Policy Studies No. 19**<sup>45</sup> of October 28, 2010 [*Choosing a Broad Based–Low Rate Approach to Taxation*] emphasising that *"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"*.

Reconfiguring and restructuring the tax system is a daunting task. Broad-based tax reforms cannot be undertaken the way we have been doing. The 2016 Report prepared by Tax Reforms Commission (TRC) has yet not been made public—it was marked as confidential by then finance minister of government of Pakistan Muslim League (Nawaz)! TRC was notified on September 25, 2014,

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<sup>45</sup> OECD (2010), *Choosing a Broad Base - Low Rate Approach to Taxation*, OECD Tax Policy Studies, No. 19, OECD Publishing, Paris, <https://doi.org/10.1787/9789264091320-en>

for suggesting tax reforms in all areas—from tax administration to tax legislation and related matters.

Till today, FBR has not implemented any major proposal of TRC. It is strange, rather shocking, that even minutes of meetings of implementing committee of TRC have not been made public for comments and debate. Reforms cannot be a closed-door affair. They should be formulated through public debate.

Automation through Tax Intelligence System (TIS) is the area that should be given the topmost priority by the new Chairman of FBR as recently done by many countries to provide an IT platform for faceless assessment and faceless appeal. Through structural reforms, initiated by the present government, the Taxpayers' Bill of Rights should be passed respecting and protecting honest taxpayers and punishing the delinquents. It must focus on making tax-paying seamless and faceless—as it should not matter, who is paying tax and who is tax officer, moving away from territorial jurisdictions to IT-based platforms.

Taxpayers should be given the trust and respect they deserve. The faceless assessment, audit and appeals would involve random allotment of cases and electronic replies, zero physical interfaces of authorities and recording of all adjudicating and appellate proceedings ensuring transparency and trust.

TIS is not a new idea. It was implemented even in countries like Botswana in the 1980s and helped in its rapid increase of diamond revenue as well as proved extremely beneficial for other areas of the economy to expand simultaneously (*Botswana's New Corporate Tax Intelligence System* by K.L. De Silva, *Bulletin*, official Journal of the International Fiscal Association, Volume 53, Number 7, 1999, page 302).

We have better human resource in IT and yet could not even achieve what a small African State managed as early as in 1985! Botswana's Tax Revenue reported collection after this initiative of US\$ 4.5 billion in December 2019. Although this recorded a decrease from the previous number of US\$ 5.218 billion for

December 2018 as Botswana's Tax Revenue data is updated monthly. However, it reached US\$ 496.639 billion in June 2023 (34% of its GDP). Our tax-to-GDP ratio was just 9.2% on June 30, 2023, and for FBR it was pathetically low at 8.5%!

TIS can process a large volume of information leading to dramatically increasing the number of new persons that should be registered as taxpayers as well as exposing those who are filers but engaged in avoidance/evasion/under-reporting etc.

The potential of TIS can only be fully exploited when motivated and trained staff is employed. FBR must therefore prepare an integrated system and not resort to piecemeal efforts (so-called digitization of tax collection), which are being done these days by local and foreign experts (McKinsey et al), engaged by FBR. Even the International Monetary Fund or World Bank have neither competence nor insight, to suggest any workable solutions to make FBR an effective and efficient entity that can educate and help those liable to pay due taxes. Taxes should also be made fair and simple to comply with, through simple IT Application. The present system is complex, and e-filing is highly cumbersome.

The issues faced on revenue mobilisation front and how to remove various impediments in its way have been discussed in detail in a number of articles for the last many years, some recent ones are, Need for new income tax law<sup>46</sup>, *Business Recorder*, March 13 & 18<sup>47</sup>, 2020, 'Avant-garde budget proposals<sup>48</sup>, *Business Recorder*, May

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<sup>46</sup> Huzaima Bukhari and Ikramul Haq, "Need for new tax law- I," *Business Recorder*, March 13, 2020, <https://www.brecorder.com/news/579657/need-for-new-income-tax-law-i>

<sup>47</sup> Huzaima Bukhari and Ikramul Haq, "Need for new tax law- II," *Business Recorder*, March 18, 2020, <https://www.brecorder.com/news/581095>

<sup>48</sup> Huzaima Bukhari and Ikramul Haq, "Avant-garde budget proposals-IV: Road to prosperity," *Business Recorder*, May 31, 2019, <https://fp.brecorder.com/2019/05/20190531482506/>.

10<sup>49</sup>, 17<sup>50</sup>, 24<sup>51</sup> & 31<sup>52</sup>, 2019, **Essential reforms**<sup>53</sup>, *Business Recorder*, March 29, 2019, **Challenges for budget-makers**<sup>54</sup>, *Business Recorder*, March 22, 2019, **Optimising tax collection**<sup>55</sup>, *Business Recorder*, March 15, 2019, **Fixing the ailing tax system**<sup>56</sup>, *Business Recorder*, March 1, 2019, **Country needs massive reforms**<sup>57</sup>, *Business Recorder*, January 25, 2019, **Time up for fiscal integration**<sup>58</sup>, *Business Recorder*, December 21 & 23, 2018, **Tax policy for investment**, *Business Recorder*, December 14, 2018, **Productive tax reforms**<sup>59</sup>, *Business Recorder*, October 27, 2018, **Overcoming fragmented tax system**<sup>60</sup>, *Business Recorder*, October

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<sup>49</sup> Huzaima Bukhari and Ikramul Haq, "Avant-garde budget proposals - I: Growth, taxes & equity," *Business Recorder*, May 10, 2019, <https://fp.brecorder.com/2019/05/20190510471146/>.

<sup>50</sup> Huzaima Bukhari and Ikramul Haq, "Avant-garde budget proposals - II: Fixing the narrow and punctured tax base," *Business Recorder*, May 17, 2019, <https://fp.brecorder.com/2019/05/20190517476005/>.

<sup>51</sup> Huzaima Bukhari and Ikramul Haq, "Avant-garde budget proposals - III: Tapping the real potential," *Business Recorder*, May 17, 2019, <https://fp.brecorder.com/2019/05/20190524478783/>.

<sup>52</sup> Huzaima Bukhari and Ikramul Haq, "Avant-garde budget proposals-IV: Road to prosperity," *Business Recorder*, May 31, 2019, <https://fp.brecorder.com/2019/05/20190531482506/>.

<sup>53</sup> Huzaima Bukhari and Ikramul Haq, "Budget 2019-20: Essential reforms," *Business Recorder*, March 29, 2019, <https://fp.brecorder.com/2019/03/20190329459335/>.

<sup>54</sup> Huzaima Bukhari and Ikramul Haq, "Challenges for budget makers," *Business Recorder*, March 22, 2019, <https://fp.brecorder.com/2019/03/20190322457634/>.

<sup>55</sup> Huzaima Bukhari and Ikramul Haq, "Optimizing tax Collection," *Business Recorder*, March 15, 2019, <https://fp.brecorder.com/2019/03/20190315455458/>.

<sup>56</sup> Huzaima Bukhari and Ikramul Haq, "Fixing the ailing tax system," *Business Recorder*, March 01, 2019, <https://fp.brecorder.com/2019/03/20190301450844/>.

<sup>57</sup> Huzaima Bukhari and Ikramul Haq, "Country needs massive reforms," *Business Recorder*, January 25, 2019, <https://fp.brecorder.com/2019/01/20190125442163/>.

<sup>58</sup> "Time up for fiscal integration - I," *Business Recorder*, December 21, 2018, <https://fp.brecorder.com/2018/12/20181221433011/>.

<sup>59</sup> "Productive tax reforms," *Business Recorder*, October 26, 2018, <https://fp.brecorder.com/2018/10/20181026418815/>.

<sup>60</sup> "Overcoming fragmented taxation," *Business Recorder*, October 19, 2018, <https://fp.brecorder.com/2018/10/20181019416917/>.

19, 2018, PTI & revival of economy<sup>61</sup>, *Business Recorder*, October 12, 2018, Bridging the tax gap<sup>62</sup>, *Business Recorder*, October 5 & 7, 2018, Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms<sup>63</sup>, *Business Recorder*, August 31, 2018, Overcoming debt burden<sup>64</sup>, *Business Recorder*, August 27, 2018, PTI and tax reforms<sup>65</sup>, *Business Recorder*, August 17, 2018, and Wither tax reforms<sup>66</sup>, *Business Recorder*, August 2, 2019.

In its first review of December 19, 2019 [Country Report No. 19/380<sup>67</sup>] IMF admitted that “more than 40 percent of total tax revenue in Pakistan is collected at the import stage.” This 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 the successive governments paid no heed to these. The World Bank in US \$ 400-million **Pakistan Raises Revenue Project**<sup>68</sup> has also made no reference to them, though many proposals were endorsed without any acknowledgement of published work by many local writers.

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<sup>61</sup> “PTI and revival of economy,” *Business Recorder*, October 12, 2018, <https://fp.brecorder.com/2018/10/20181012414530/>

<sup>62</sup> “Bridging tax gap - I,” *Business Recorder*, October 05, 2018, <https://fp.brecorder.com/2018/10/20181005412825/>

<sup>63</sup> “Case for All-Pakistan Unified Tax Service: PTI & innovative tax reforms,” *Business Recorder*, August 31, 2018, <https://fp.brecorder.com/2018/08/20180831403398/>

<sup>64</sup> “Bridging tax gap - I,” *Business Recorder*, October 05, 2018, <https://fp.brecorder.com/2018/10/20181005412825/>

<sup>65</sup> “PTI govt & tax reforms,” *Business Recorder*, August 17, 2018, <https://fp.brecorder.com/2018/08/20180817400045/>

<sup>66</sup> Huzaima Bukhari and Ikramul Haq, “Wither tax reforms?” *Business Recorder*, August 02, 2019, <https://fp.brecorder.com/2019/08/20190802503683/>

<sup>67</sup> International Monetary Fund, *IMF Staff Country Reports*, December 23, 2019, <https://www.imf.org/en/Publications/CR/Issues/2019/12/20/Pakistan-First-Review-Under-the-Extended-Arrangement-Under-the-Extended-Fund-Facility-and-48899>

<sup>68</sup> World Bank Group, *Pakistan Raises Revenue Project*, accessed November 6, 2024, <https://www.worldbank.org/en/news/loans-credits/2019/06/13/pakistan-raises-revenue-project>

## Chapter 7: Tax Gap & Potential

In the *Tax Gap Report 2022*<sup>69</sup> available on its website, FBR claims that its in-house researchers (sic!) adopted “the top-down and bottom-up approaches to estimate the tax gap.” The Report says: “The top-down approach relies on the National Accounts Data and Supply-use Tables and is used to estimate the Sales Tax gap. The bottom-up approach relies on the microsimulations and is used to estimate the Income Tax and Customs Duty gap”.

The methodology adopted in the Report to determine tax gap is faulty and flawed. The Report does not take into account the huge informal economy relying on official figures, which are admittedly not trustworthy. The Report says that it “measures the compliance gap and does not account for tax expenditure”. The term “compliance gap”, itself is questionable. FBR has failed to tap the real tax potential by analyzing simple data of unique mobile users.

It is pertinent to mention that according to *Pakistan Economic Survey (2022-23)*<sup>70</sup>, labour force increased from 65.5 million in FY 2017-18 to 71.76 million in FY 2020-21 and the number of employed persons increased from 61.71 million to 67.25 million during the same period. According to information provided by Pakistan Telecommunication Authority (PTA) on its website, total cellular subscribers as on May 31, 2023, were 192 million (81.03% mobile tele-density).

Out of the total mobile subscribers, 124 million were broadband subscribers (54.43% mobile broadband penetration), 3 million fixed telephony subscribers (1.09% fixed tele-density) and 127 million broadband subscribers (53.65% broadband penetration). No less

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<sup>69</sup> Federal Board of Revenue, *Tax Gap Report 2022*, <https://download1.fbr.gov.pk/Docs/20231614183512Tax-Gap-Report-2022.pdf>

<sup>70</sup> Economic Advisors Wing, *Economic Survey of Pakistan 2022-23*, Ministry of Finance, [https://www.finance.gov.pk/survey\\_2023.html](https://www.finance.gov.pk/survey_2023.html)

than 120 million unique mobile users (many having multiple SIMs) were thus paying advance/adjustable income tax of 15% (earlier it was 12.5%) from July 1, 2022, to June 30, 2023.

The number was not less than 110 million as on June 30, 2022, and about 105 million at the close of June 2021. It means that FBR could have found at least 20 million **taxable persons** from this database alone—all were paying advance/adjustable income tax. The number of individual income tax filers on FBR's Active Taxpayers Lists (ATL) in the said period was even less than 4% of unique mobile users paying advance income tax under section 236 of the Income Tax Ordinance, 2001. These facts/data prove beyond any doubt that the entire taxable population and even those having no income or income below taxable limit had been paying advance/adjustable income tax at source as mobile/broadband users.

In case all unique mobile/broadband users paying advance tax had filed income tax returns, there would be refunds payable to at least 90 million individuals having no income or income below taxable limit though cost to claim would be much higher than their withheld tax—sadly, FBR has never acknowledged them as “taxpayers” and is not even ready to pay refunds to existing and compliant income tax filers.

The State should not collect advance taxes from those who are not chargeable to tax. Provisions like section 236 of the Income Tax Ordinance, 2001 along with many other similar ones providing withholding of taxes on transactions, instead of on real incomes, reflect a bad tax policy—anti-poor and contradictory to FBR's claim of increasing direct taxes by diligently taxing the rich and the mighty.

Data related to unique mobile/broadband users is sufficient to explode the myth of “compliance gap” created/used by FBR in the Report. The poorest of the poor are subject to oppressive and

unjustified, rather unconstitutional withholding tax on mobile use, and yet Pakistanis are called tax thieves by FBR stalwarts, so-called local experts working for lenders and donors and some all-knowing anchors of TV talk shows. The reality is that many segments from the rich and mighty are not paying their due taxes and enjoying exemptions, concessions, waivers and immunities in tax codes, besides benefitting from tax and asset amnesties offered frequently by the state. Adding insult to injury are the following words of appreciation by the Chairman of FBR included in the Report:

*"The efforts put in by the Revenue Analysis team, under the able guidance of Director General (Revenue Analysis), in producing this Tax Gap Report are appreciated. I hope the tax gap report will be useful for stakeholders, particularly the policy makers to devise future tax policy and strategies to tap the maximum potential of tax revenue".*

Quite strangely, Chairman FBR forgot that on July 22, 2022, while speaking<sup>71</sup> at the Summer Camp of Lahore Tax Bar, claimed that "tax gap of Pakistan is not less than Rs. 3000 billion".

According to a Press report<sup>72</sup> [**Tax gap stands at Rs.3000bn: FBR Chief**], the Chairman FBR said that this gap "is on annual basis and exists mainly in the shape of tax exemptions for powerful lobbies, massive tax evasions, and the inability of the machinery to collect due taxes". The FBR Chairman further revealed:

*"We have found that the total tax potential under jurisdiction of the federal government stands at Rs 9,000 billion out of which the FBR collected Rs. 6,000 billion so the tax gap was assessed at Rs3,000 billion on a per annum basis".*

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<sup>71</sup> "Tax gap stands at Rs3,000bn: FBR chief," *The News*, July 23, 2022, <https://www.thenews.com.pk/print/976029-tax-gap-stands-at-rs3-000bn-fbr-chief>

<sup>72</sup> Ibid.



The Chairman FBR reportedly revealed that the tax gap analysis he referred was conducted by hiring a consultant “on the directives of Prime Minister Shehbaz Sharif on the eve of budget-making exercise for 2022-23”.

The Report made public at the website of FBR about tax gap appears to have no nexus with the one that according to Chairman FBR was assigned “to conduct the first-ever formal study to assess the ‘tax gap’ keeping in view jurisdictions of the federal government under 1973 Constitution for the imposition of taxes” [under the existing constitutional arrangements, the general sales tax (GST) on goods is in the domain of the federal government while GST on services is in the provincial jurisdiction including tax on agricultural income].

At the time of preparing the so-called “first-ever formal study” [yet not made public!] or the Report, FBR stalwarts did not mention tax gap study earlier prepared with the help of World Bank—see details in **The tax gap**<sup>73</sup>, *Business Recorder*, July 29, 2022.

It needs to be mentioned that the actual tax potential of Pakistan in 2022 was not less than Rs. 16 trillion [**Paradigm shift in tax policy**<sup>74</sup>, *Business Recorder*, May 26, 2023] against the claim of Rs. 9 trillion by worthy Chairman FBR. In **How to bridge huge tax gaps?**<sup>75</sup> *Business Recorder*, April 15, 2011, **Bridging the tax gap**—<sup>76</sup>,

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<sup>73</sup> Huzaima Bukhari, Ikramul Haq and Abdul Rauf Shakoori, “The Tax Gap,” *Business Recorder*, July 29, 2022, <https://www.brecorder.com/news/40188848/the-tax-gap>

<sup>74</sup> Huzaima Bukhari, Ikramul Haq and Abdul Rauf Shakoori, “Paradigm shift in tax policy,” *Business Recorder*, May 26, 2023, <https://www.brecorder.com/news/40244273/paradigm-shift-in-tax-policy>

<sup>75</sup> “How to bridge huge tax gaps?” *Business Recorder*, April 15, 2011, <https://www.brecorder.com/news/3864633/how-to-bridge-huge-tax-gaps-201104151178223>

<sup>76</sup> “Bridging tax gap – I,” *Business Recorder*, October 5, 2018, <https://fp.brecorder.com/2018/10/20181005412825/>

*Business Recorder*, October 5, 2018 and **Bridging the tax gap—II**<sup>77</sup>, *Business Recorder*, October 7, 2018, earlier studies on tax gaps were cited. In **Tapping the real tax potential**<sup>78</sup> [*Business Recorder*, March 24, 2017], the following was mentioned:

*“Tax gap of a country is measured by the amount of tax that remains uncollected due to non-compliance with tax laws. A study, ‘Pakistan Tax Gaps: Estimates by Tax Calculation and Methodology’<sup>79</sup>, jointly undertaken by the Federal Board of Revenue (FBR) and Andrew Young School of Policy Studies at Georgia State University, provides details of tax gaps by type of tax and describes the methodologies and data used for such estimates”.*

Presently, out of total registered companies, about 50% are not filing income tax returns. FBR’s income tax collection in fiscal year 2022-23 was Rs. 3.3 trillion. On the basis of data presented above, total income tax potential alone was not less than Rs. 10 trillion. Sales tax collection in fiscal year 2022-2023 was Rs. 2.6 trillion, whereas actual potential was at least Rs. 5 trillion. Similarly, the potential of customs duty was Rs. 1500 billion but FBR collected Rs. 926 billion. The potential of federal excise was Rs. 500 billion, if not more, but FBR collected Rs. 370 billion in FY 2022-23. The gaps in all taxes are much higher than those mentioned in the latest Report of FBR at Rs. 1289<sup>80</sup> from FY 2019 to 2020.

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<sup>77</sup> “Bridging tax gap – II,” *Business Recorder*, October 7, 2018, <https://www.brecorder.com/news/4639513>

<sup>78</sup> Huzaima Bukhari and Dr Ikramul Haq, “Tapping the real revenue potential,” *Business Recorder*, March 24, 2017, <https://epaper.brecorder.com/2017/03/24/22-page/638339-news.html>

<sup>79</sup> Robina Ather Ahmed and Mark Rider, “Pakistan’s Tax Gap: Estimates by Tax Calculation and Methodology,” International Studies Program, Working Paper 08-11, (2008), <https://icepp.gsu.edu/files/2015/03/ispwp0811.pdf>

<sup>80</sup> Federal Board of Revenue, *Tax Gap Report 2022*, <https://download1.fbr.gov.pk/Docs/20231614183512Tax-Gap-Report-2022.pdf>

In view of above, even under the prevailing economic conditions, documented GDP and current tax rates, total tax potential at FBR level comes to Rs. 17 trillion [Income Tax: Rs. 10 trillion; Sales Tax: Rs. 5 trillion; Customs Duty: Rs. 1500 billion and FED Rs. 500 billion] and if we withdraw all exemptions/concessions and waivers as pointed out by FBR Chairman a further amount of Rs. 3 trillion can be collected.

It is strange that till today neither IMF nor FBR has bothered to determine the real tax potential as discussed above. Fixation of tax target at Rs. 9.415 trillion<sup>81</sup> in the budget for FY 2023-24 was too low. It should have been Rs. 17 trillion in the light of above studies and facts, and the way it should be collected is already explained in this book.

## **A. Potential of Various Taxes**

### **i. 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. The study suggests simple and flat rate taxation of 10 percent for all entities other than companies, for which a flat rate of 20 percent is proposed.

According to official and non-official figures, the present tax base is around Rs. 200 trillion (after considering informal economy). Flat-rate taxation of just 10 percent with strong enforcement system suggested in the study will yield Rs. 10 trillion under income tax from individuals and Rs. 5 trillion from corporate entities.

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<sup>81</sup> Hamid Ateeq Sarwar, "Achieving enhanced revenue targets" *The Express Tribune*, July 10, 2023, <https://tribune.com.pk/story/2425488/achieving-enhanced-revenue-targets>

ii. Sales Tax

Presently, collection of sales tax is concentrated in a few commodities. According to the latest admission<sup>82</sup> on the part of Member Policy (IRS) in a Press conference, against the standard rate of 18%, the effective rate of sales tax collection is just 3 per cent. In this Press conference, the Federal Finance Minister and Chairman FBR disclosed that disclosed that Pakistan's large corporate firms and their white-collar management had been involved in a whopping annual sales tax fraud of Rs. 3.4 trillion – in a statement that brings into question the efficacy of the regulatory setup.

Sales tax collection has always been not only very low but fraught with leakages and frauds. The details can be seen in the Annex showing historic data of its collection. The latest figures available in FBR’s Year Book 2022-23 are below:

Table 10: Major Revenue Spinners of FED (Imports) During FY: 2022-23

S. No	Commodity Name	Collection		(% Growth)	(Rs in Million) % Share in Total FED (Imports)	
		2022-23	2021-22		2022-23	2021-22
		1	Vehicles other than railway, or tramway (Ch: 87)		5,431	15,161
2	Mineral Fuels, Mineral oils & their products (27)	3,290	4,234	-22.3	23.8	18.8
3	Essential oils & resinoids; Perfumery and cosmetics (Ch: 33)	3,199	1,894	68.9	23.1	8.4
4	Tobacco & manufactured tobacco substitutes (Ch:24)	1,048	123	752.0	7.6	0.5
5	Wadding, felt & non-wovens (Ch: 56)	211	164	28.7	1.5	0.7
6	Beverages, spirits & vinegar (Ch: 22)	152	142	7.0	1.1	0.6
7	Salt; sulphur, earths & stone (Ch: 25)	62	126	-50.8	0.4	0.6
8	Preparation of vegetables, fruit & others (Ch: 20)	39	45	-13.3	0.3	0.2
9	Miscellaneous edible preparations (Ch: 21)	17	14	21.4	0.1	0.1
10	Iron and steel (Ch: 72)	6	16	-62.5	0.0	0.1
<b>Sub-Total</b>		<b>13,455</b>	<b>21,919</b>	<b>-38.6</b>	<b>97.2</b>	<b>97.4</b>
Others		386	595	-35.1	2.8	2.6
<b>Gross</b>		<b>13,841</b>	<b>22,514</b>	<b>-38.5</b>	<b>100.0</b>	<b>100.0</b>
Refunds		-	-	-		
<b>Net</b>		<b>13,841</b>	<b>22,514</b>	<b>-38.5</b>		

Source: DR&S, FBR

Source: FBR Data published in FBR Year Book 2022-23.

<sup>82</sup> Shahbaz Rana, "Big firms commit Rs3.4tr tax fraud", *The Express Tribune*, October 11, 2024, <https://tribune.com.pk/story/2502016/big-firms-commit-rs34tr-tax-fraud>

### iii. Customs

Rationalization of customs revenue is not possible through narrow bases (10 items contribute more than 80% receipts), in the presence of hundreds of statutory regulatory orders (SROs) and numerous valuation rulings—all leading to complexity and leakages. There are presently four tariff slabs with a peak of 20% and floor of 2%. The study suggests single rate (5%) customs duty for all items and with no sales tax on import stage or any withholding income tax, industry and trade are bound to flourish.

### iv. Federal Excise

Collection of Federal Excise Duty (FED) for fiscal year 2023-24 was Rs. 577 billion against collection of Rs. 370 in 2022-23. Despite this increase, share of FED in total FBR collection remained unchanged at 5.2 percent. Major sectors which contributed to FED revenues were cigarettes, cement, concentrates used in beverages/foods, services (details available at Table 16 of FBR Year Book 2022-23).

The main spinners for fiscal year 2022-23 as per FBR Year Book are as under:

**Table 11: Major Revenue Spinners of FED(Domestic) During FY: 2022-23**

S. No	Commodity Name	Collection		(% Growth)	% Share in Total FED (Domestic)	
		2022-23	2021-22		2022-23	2021-22
		(Rs in Million)				
1	Cigarettes	140,834	117,026	20.3	39.6	39.3
2	Cement	66,387	73,470	-9.6	18.6	24.6
3	Concentrates Used In Beverages/Foods	31,271	21,188	47.6	8.8	7.1
4	Service Provided: For Inland Travel By Air	22,842	16,721	36.6	6.4	5.6
5	Autos	21,466	19,445	10.4	6.0	6.5
6	Travel By Air	17,405	8,912	95.3	4.9	3.0
7	Aerated Waters/Beverages	17,104	13,793	24.0	4.8	4.6
8	Natural Gas	8,673	8,999	-3.6	2.4	3.0
9	POL Products	4,828	4,457	8.3	1.4	1.5
10	Alcohol	1,134	804	41.0	0.3	0.3
<b>Sub-Total</b>		<b>331,944</b>	<b>284,815</b>	<b>16.5</b>	<b>93.2</b>	<b>95.5</b>
Others		24,100	19,991	20.6	6.8	6.7
<b>Gross</b>		<b>356,044</b>	<b>298,146</b>	<b>19.4</b>	<b>100</b>	<b>102</b>
Refund		-	-	-		
<b>Net</b>		<b>356,044</b>	<b>298,146</b>	<b>19.4</b>		

Source: PRAL

Source: FBR Data published in FBR Year Book 2022-23.

There is a potential for increasing collection under this head at least by Rs. 500 billion if massive evasion in illicit tobacco manufacturing and sale is countered through trace and track (T&T) system<sup>83</sup> and levying health tax.

While preparing budget 2020-21, there was an opportunity to levy health tax on cigarettes while facing challenge of Covid-19 outbreak<sup>84</sup>. For levying this tax, successive governments have failed to take note of the fact that any provincial assembly, by a resolution under Article 144 of the Constitution can ask National Assembly, to impose health tax on their behalf and money would go into National Health Fund to provide all citizens modern healthcare. It is strange that the Law Ministry till today has not given this advice to federal government in the light of judgment of Supreme Court of Pakistan on Article 149 of the Constitution in the case of *Government of Sindh through Secretary Health Department and Others v Dr. Nadeem Rizvi and others* [2020 SCMR 1] holding:

*“The performance of its positive obligations under the fundamental rights, for example right to life, prevention of slavery, forced labour, human trafficking, etc. constitute a “purpose” of the Federation for which it can carry out projects throughout Pakistan. For performance of the said purpose, it is not necessary to look into the legislative list when the main body of the Constitution provides the requisite powers. Refer to Province of Sindh v. MQM (PLD 2014 SC 531)”.*

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<sup>83</sup> Ikramul Haq and Huzaima Bukhari, “Budgets 2020-21: Illicit trade in tobacco products— I,” *Business Recorder*, June 5, 2020, <https://www.brecorder.com/news/1001749>

<sup>84</sup> Ikramul Haq and Huzaima Bukhari, “Budgets 2020-21: Illicit trade in tobacco products— II,” *Business Recorder*, June 12, 2020, <https://www.brecorder.com/news/1003708>

Many countries have imposed sin tax on tobacco and alcohol and United Kingdom in 2018 imposed Soft Drinks Industry Levy <sup>85</sup>(SDIL) that purports to put a charge of 24p on drinks containing 8g of sugar per 100ml and 18p a liter on those with 5-8g of sugar per 100ml, directly payable by manufacturers to His Majesty Revenue and Customs (HMRC). Had we imposed similar taxes sufficient amount could have been collected and diverted towards improving healthcare system.

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<sup>85</sup> Jacqui Thornton, "The UK has introduced a sugar tax, but will it work?" London School of Hygiene and Tropical Medicine, June 2018, <https://www.lshtm.ac.uk/research/research-action/features/uk-sugar-tax-will-it-work>

## Chapter 8: Fiscal Management: Issues & Challenges

Undoubtedly, Pakistan has been perpetually facing since 2002 the worst multidimensional economic crisis of its history. From serious dollar crunch to monstrous debt burden, historic high inflation to exorbitant discount rate, widening fiscal deficit to unsustainable debt servicing, vulnerabilities on external payment front to unjust import restrictions, rising unemployment and poverty to growth retardation—all micro and macro indicators in red suggest the urgent need for a crisis management to come out of the prevailing mess. **The key area for salvation remains prudent fiscal management.**

For years, Pakistan has become a target of severe criticism at home and abroad, by donors and lenders, for not collecting taxes due, especially from the rich and mighty. It is an incontrovertible reality that both the Centre and provinces are not collecting taxes diligently. The contribution of provinces in overall tax collection is pathetically low.

FBR is under pressure from International Monetary Fund (IMF) to levy more oppressive, indirect taxes to meet the agreed ratio after inflated GDP due to massive devaluation of rupee—a recipe for disaster and for further accentuating stagflation.

Pakistan's tax potential at federal level is not less than Rs. 22 trillion and at national level Rs. 24 trillion even under the given documented economy. Details are discussed in chapter dealing with tax gap.

Provinces can collect Rs. 2 trillion if agricultural income tax (AIT) alone is properly collected. In the ongoing US\$7 billion 37-month extended fund facility programme (EFF), IMF has laid down a condition that all provinces would levy AIT at the same rates as



prevalent under federal income tax law for personal and corporate income taxation. Originally, as per staff level agreement with IMF on July 12, 2024, it was to be implemented from January 1, 2025, but now the Federal Finance Minister says it is deferred to July 1, 2025.

According to **Economy of Debt: Alternatives to Austerity and Neoliberalism in Pakistan**<sup>86</sup> [page 19], *"Today, a mere 5% of large landholders in Pakistan are said to possess a massive 64% of the total farmland, while 65% of small farmers hold only 15% of the land (Nazeer 2015)"*.

Dr. Hafiz Pasha, a renowned economist, as the lead author of UNDP's National Human Development Report (NHDR) on inequality, talked about the gross disparities present in the country. As an example, he said that the agricultural and population census "shows that 1 percent of farmers in Pakistan own 22 percent of all farm area"<sup>87</sup>.

Dr. Kaiser Bengali, another respected economist, is quoted: *"I think the landowners' lobby is powerful in the assembly and they might not allow downward revision of non-taxable income. Instead of filing Agricultural Income Tax returns with the provincial governments, the same should be filed with the FBR that should solely assess/receive tax returns for agriculture and transfer it to the provinces as per their respective share like the gas development surcharge. Equity demands burden of taxation should be same for all"*<sup>88</sup>.

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<sup>86</sup> Ammar Rashid, Nawfal Saleemi, and Aasim Sajjad Akhtar, "Economy of Debt: Alternatives to Austerity and Neoliberalism in Pakistan" May 2019, <https://awamiworkersparty.org/economy-of-debt-position-paper/>

<sup>87</sup> UNDP, "On Equity and Happiness: UNDP at the Lahore Literary Festival", February 26, 2019, <https://www.undp.org/pakistan/news/equity-and-happiness-undp-lahore-literary-festival>

<sup>88</sup> Muhammad Hussaib Khan, Sindh mulls halving agriculture income tax exemption, DAWN, March 22, 2021, <https://www.dawn.com/news/1613905>

Taxation of “agricultural income” at par with the prevailing burdensome federal income tax regime, if implemented, will have serious ramifications for farmers with small and medium-size landholdings up to 25 acres as they are living at subsistence levels due to low productivity and higher prices on inputs. The real issue with taxation of “agricultural income” is the fact that absentee landowners are not paying income tax on their colossal earnings from this source, or making negligible contributions, whereas small farmers hardly earning any taxable income, are yet burdened with multiple federal and provincial taxes. Those having economically unsustainable holdings are facing exorbitant costs of inputs (seeds, fertilizers, pesticides, insecticides, electricity, diesel etc.).

With the ever-increasing prices of energy and POL products, agricultural income taxation at par with prevailing personal/corporate income tax rates, accentuated harshly in the federal Budget 2024-25, would pose an unbearable burden on them. It will further deteriorate their financial condition, pushing many of them below the poverty line. The existing higher cost of inputs, low productivity and lack of market access are their pressing issues, but no one is ready to address them.

There exist many misconceptions about share of agricultural sector [24 percent<sup>89</sup> in the fiscal year 2023-24 as per Economic Survey of Pakistan] as a whole in the GDP vis-à-vis the component of “agricultural income”. Many think that crops are the main output of the agricultural sector, which in reality is less than ten percent of GDP. According to ***Economic Survey 2023-24***, “*During 2023-24, the critical crops contributed 20.67 percent to value addition in agriculture and 4.97 percent to GDP. Other crops contributed 13.51 percent in value addition to agriculture and 3.25 percent in GDP*”.

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<sup>89</sup> Economic Advisors Wing, *Pakistan Economic Survey 2023-24, Agriculture*, Ministry of Finance, [https://www.finance.gov.pk/survey/chapter\\_24/2\\_agriculture.pdf](https://www.finance.gov.pk/survey/chapter_24/2_agriculture.pdf)

It needs to be emphasized that only “agricultural income” falls within the legislative competence of the provinces, while all other activities of agriculture sector (livestock, poultry, forestry, cattle farming, fish farming etc.) are under FBR’s jurisdiction. How much tax it collects from these activities is not made public by FBR! Even the most informed ones (sic) in our media and so-called intelligentsia have no idea as to what “agricultural income” is as per law and what is its real tax potential.

The provincial assemblies, in terms of Article 142(c) read with Entry 47 of Part I of Federal Legislative List [FLL] contained in the Fourth Schedule to the Constitution of Islamic Republic of Pakistan [“the Constitution’], have the exclusive authority to impose taxes on **“agricultural income”**, except in areas that fall within the domain of the federal government, known as Islamabad Capital Territory (ICT)—see Article 1(b) of the Constitution.

The National Assembly can impose income tax on all types of incomes except **“agricultural income”** as Entry 47, Part I of FLL reads: **“Taxes on income other than agricultural income”**. However, it may be highlighted that within the ICT, the National Assembly has the exclusive power to levy income tax on **“agricultural income”** as provided in Article 142(d) of the Constitution which says: **“Majlis-e-Shoora (Parliament) shall have exclusive power to make laws with respect to all matters pertaining to such areas in the Federation as are not included in any Province”**.

The definition of **“agricultural income”**, according to Article 260 of the Constitution, **“means agricultural income as defined for the purpose of the law relating to income tax”**. This is an exclusive definition meaning by that no other meaning can be assigned to it, except for the purpose of the law relating to income tax, which at present is Income Tax Ordinance, 2001—its section 41 exhaustively defines what is **“agricultural income”**.

It is shocking that despite the unambiguous provisions of the Constitution and principle of equity, none of the provincial governments has ever been inclined to collect tax from the wealthy and absentee landowners on “agricultural income” at the rate applicable under the Income Tax Ordinance, 2001 on non-agricultural income. This obviously has given an opportunity to the IMF to impose conditions of collection of agricultural income tax by provinces as per federal income tax rates.

We highlighted the issue in a research paper<sup>90</sup>, and a number of articles. Income tax on “**agricultural income**” should not be levied/assessed/ collected on per acre basis, but on net income basis, as required by the Constitution. No province can disregard this command of the supreme law of the land. However, an unconstitutional practice has been ongoing since 1973, and all institutions, including the Supreme Court, remain silent spectators on this vital matter that help the rich to amass more wealth at the expense of state treasury and the landless tillers.

The federal government’s approach in **not** taxing “**agricultural income**” of the rich is no different within the federal boundaries of Islamabad, even though many wealthy individuals own agricultural farms and absentee landowners in rural areas are quite affluent. These property owners hold significant influence in national politics, federal and provincial assemblies.

The Constitution empowers the National Assembly to levy income tax on “agricultural income” within the federal limits, but no legislation has been enacted for this purpose till today. This is because influential members of elites, who are favoured by the state with agricultural lands as reward/award, earn income by renting it out, wielding considerable influence over elected

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<sup>90</sup> PILDAT, “Tax on Agriculture Income”, Briefing Paper No.43, (2011), <https://pildat.org/parliamentary-development1/tax-on-agriculture-income>

governments and living opulent lifestyles at the expense of poor peasants. Making things worse, poor farmers are exploited by the state, as they are subjected to heavy sales tax on agricultural implements, electricity, fertilizers, pesticides, insecticides, and other inputs, along with petroleum levy on diesel and petrol. In addition to numerous other levies, they also face abuse from the police, *patwar* (land revenue officials), and absentee landowners. Multiple inquiry reports confirm that sugar barons do not provide fair compensation to farmers for the sugarcane they produce.

According to an op-ed<sup>91</sup> of February 6, 2020, by a former federal secretary: **“This [agricultural] sector is almost one fifth of the economy (18.9%) and generates more than \$60 billion or 9 trillion rupees worth of gross income annually...”**. The Tax Expenditure Report 2020<sup>92</sup> of FBR revealed that in tax year 2018 exempt dividend paid by corporate sector from “agricultural income” was Rs. 43 million. The provincial collection of agricultural income tax in tax year 2018 was Rs. 1598 million<sup>93</sup>. On the basis of Agricultural Census 2010 by Pakistan Bureau of Statistics, the Report claims: *“If statutory slab-wise tax rates are applied on average income per farm for the six categories of farm sizes, the estimated revenue forgone due to this exemption comes to **Rs. 69.5 billion annually**”*. It may be noted that farms smaller than 7.5 acres were excluded and Rs. 50,000 income per acre basis was assumed.

Instead of levying agricultural income tax as per the Constitution and imposing progressive taxes like inheritance tax (estate duty), gift tax, wealth tax and capital gain tax on the wealthy class, the four

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<sup>91</sup> Muhammad Zia-ur-Rehman, “Issues in the collection of Agriculture Income Tax”, *The Nation*, February 06, 2020, <https://www.nation.com.pk/06-Feb-2020/issues-in-the-collection-of-agriculture-income-tax>

<sup>92</sup> Federal Board of Revenue, *Tax Expenditure Report 2020*, <https://download1.fbr.gov.pk/Docs/2020622186353342TaxExpenditureReport2020.pdf>

<sup>93</sup> Ibid.

provinces collectively received Rs. 5264 billion<sup>94</sup> in fiscal year 2023-24 from the federal government under the 7th National Finance Commission (NFC) Award. At their own, they collected a meager amount of total revenues of Rs. 816 billion, with tax revenue of only Rs 650 billion. Collection under the head agricultural income tax in total tax collections was a mere 0.3 percent.

The above-mentioned facts highlight that the real problem does not lie with the Eighteenth Constitutional Amendment or the NFC Award, but with the failure to reform the revenue system, the dysfunctional state of FBR and inefficient provincial tax agencies, tax concessions and exemptions for the wealthy tax evaders, and with granting amnesties to state thieves, who have mercilessly looted the wealth of the nation with impunity.

The four provinces are least interested in taxing the rich and mighty. In Sindh, for example, the major tax collection is from sales tax on services, which is regressive in nature, but there is hesitation in collecting agricultural income tax from big *pirs* owning lands. The same pattern is in Punjab and Khyber Pakhtunkhwa, where the assemblies are dominated by absentee landowners. Failure to collect income tax on agricultural income as per the Constitution has led to significant revenue losses. Balochistan faces an even worse situation, with no income tax collected on agricultural income exceeding five million rupees during any financial year. There is a clear lack of political inclination in all provinces to impose agricultural income tax as per the Constitution, a right they have been enjoying since independence that has nothing to do with the Eighteenth Amendment.

The federal budget never shows any figure of agricultural income tax in ICT though according to the Constitution, the National

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<sup>94</sup> Ministry of Finance, *Summary of Consolidated Federal and Provincial Fiscal Operations 2023-24*, [https://www.finance.gov.pk/fiscal/July\\_June\\_2023\\_24.pdf](https://www.finance.gov.pk/fiscal/July_June_2023_24.pdf)

Assembly has the exclusive power to impose this tax, but it has never exercised this right. None of our prime ministers or finance ministers has ever mentioned its implementation to increase federal resources. The World Bank and IMF have not mentioned this lapse in any of their reports or studies. Even IMF's Press release No. 24/273<sup>95</sup>, July 12, 2024, and IMF Country Report No. 24/310 of October 2024<sup>96</sup> are silent on this issue. A viable solution to proper taxation of "agricultural income" is transferring it to the federal government and restoring to the provinces their pre-independence right of sales tax on goods, brazenly snatched by the first military dictator, as well as implementation of a federalised structure<sup>97</sup> of tax administration for effective enforcement of tax codes.

In fiscal year 2023-24, all provincial governments cumulatively collected Rs. 2.4 billion as agricultural income tax, though its national potential could be up to Rs. 2 trillion, as per various research studies<sup>98</sup>, if the agricultural income tax is imposed in accordance with the Constitution. Proper collection of this tax by the provinces could have significantly reduced the federation's overall fiscal deficit besides improving the pathetic tax-to-GDP ratio of just 9.5 percent<sup>99</sup>.

The existing tax system encourages parallel economy. Thus, reforming it is nothing but a fallacy. Patchwork is an exercise in

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<sup>95</sup> International Monetary Fund, *Pakistan: IMF Reaches Staff-Level Agreement on Economic Policies with Pakistan for 37-month Extended Fund Facility*, Press Release No. 24/273, <https://www.imf.org/en/News/Articles/2024/07/12/pr-24273-pakistan-imf-reaches-agreement-on-economic-policies-for-37-month-eff>

<sup>96</sup> International Monetary Fund, *IMF Staff Country Reports*, October 10, 2024, <https://www.imf.org/en/Publications/CR/Issues/2024/10/10/Pakistan-2024-Article-IV-Consultation-and-Request-for-an-Extended-Arrangement-under-the-556152>

<sup>97</sup> Ikramul Haq, "It's Time to Dismantle the Dysfunctional FBR", *The Friday Times*, March 9, 2024, <https://thefridaytimes.com/09-Mar-2024/it-s-time-to-dismantle-the-dysfunctional-fbr>

<sup>98</sup> Ikramul Haq, "Agriculture Income Tax," 2023, <https://pide.org.pk/research/agricultural-income-tax/>

<sup>99</sup> Ministry of Finance, *Summary of Consolidated Federal and Provincial Fiscal Operations 2023-24*, [https://www.finance.gov.pk/fiscal/July\\_June\\_2023\\_24.pdf](https://www.finance.gov.pk/fiscal/July_June_2023_24.pdf)

futility—no matter how many tax reform commissions or committees are formed; the result would be curing the incurable. The remedy lies in a paradigm shift in tax policy and dismantling of the existing tax apparatus, and its replacement with a lean and automated agency manned by professionals.

The following measures at federal and provincial levels can increase the tax-to-GDP ratio from the present 9.5 percent to 16 percent in one year alone:

- Bridging of tax gap through effective enforcement & voluntary compliance.
- Withdrawal of all concessionary Statutory Regulatory Orders (SROs).
- Substantial property tax on the rich.
- Net income taxation of agricultural income with minimum not less than Rs. 25,000 per acre on irrigated agricultural holdings above 25 acres and Rs. 12,000 per acre on unirrigated holdings above 50 acres.
- A capital gains tax at normal rate on transfer of all moveable and immovable assets.
- Imposition of sales tax on all kinds of goods and services.

Prudent and effective fiscal management and accountability alone can help Pakistan to effectively overcome fiscal deficit. Once fiscal space is created by good governance, the government can focus on providing basic amenities like clean and safe drinking water, health and education, transport and housing to the people.

Resource mobilisation should be given priority to build infrastructure, facilitate growth of small and medium-sized firms in the industrial sector and small farms in the agricultural sector for an employment intensive and equitable economic growth process. At



the same time, large corporations with equity stakes for the poor can be established through public-private partnerships. This would set the stage for a structural change that could help achieve economic growth for the people and by the people which is presently confined to the elites only.

Amending tax codes each year through Finance Acts and in between, by way of statutory regulation orders (SROs) is not serving any useful purpose—these are not solutions for improving tax administration. In fact, taxation through executive orders is unconstitutional in view of Article 77 read with Article 162 of the Constitution of Pakistan. Through these SROs, the government bypasses the Parliament and commits open violation of the dictum of Supreme Court in the case of *Engineer Iqbal Zafar Jhagra and Senator Rukhsana Zuberi v Federation of Pakistan and Others* (2013) 108 TAX 1 (S.C. Pak) that says:

“It is well settled proposition that levy of tax for the purpose of Federation is not permissible except by or under the authority of Act of Majlis-e-Shoora (Parliament). Reference in this behalf may be made to the case of *Cyanamid Pakistan Ltd. V. Collector of Customs* (PLD 2005 SC 495), wherein it has also been held that such legislative powers cannot be delegated to the Executive Authorities. Also see *Government of Pakistan v. Muhammad Ashraf* (PLD 1993SC 176) and *All Pakistan Textile Mills Associations v. Province of Sindh* (2004 YLR 192).” [Page 18, Para 20]

An effective fiscal management lies in converting FBR into an autonomous body run by an independent Board of Directors comprising professionals not answerable to the headquarters of the ruling party.

FBR must be insulated from all kinds of political influences. Enforcement of tax laws without any fear or favour should be the first and topmost priority of the government if it wants to rescue the country from the present economic mess coupled with expending taxes for the benefit of masses and desisting from wasting funds on white elephants—monstrous public sector enterprises sleazing with inefficiency and corruption—so that public can see that the elected government is a responsible one and cares for them. This would promote tax culture and restore people’s faith in the tax system. Voluntary tax compliance can be improved only through a strong deterrent system where the compliant taxpayers are respected and rewarded, while evaders are exposed and punished under the law.

For the last many decades,<sup>100</sup> 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, 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.

## **A. Overview of Fiscal Mismanagement**

All indicators show that economic managers of successive governments since 2002, due to imprudent economic and tax policies, have pushed Pakistan into chronic, unremitting, unceasing debt-enslavement. Debtocracy, a term yet to become part of public discourse, is not merely an economic issue. It has multi-faceted

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<sup>100</sup> In economics and political science, fiscal management is the use of government revenue collection and expenditure to influence the economy. Two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors.

political connotations as well. Once a nation is trapped in 'debt prison', it characteristically becomes politically subjugated. Lenders exploit the enslaved and subjugated. Pakistan is a classic study of victim of debtocracy leading to economic and political subjugation. Slavery, physical or mental, has devastating effects for individuals and nations.

The subjugated live in a permanent state of submission, suffering and subordination. In the capitalist world, the 'debt-slavery-syndrome' represents a perpetual despair and never-ending suffering both for individuals and nations. This is the worst one can think of in the age that is also known for enlightenment and struggle for human rights.

Economists mention debts and liabilities only in numbers e.g. Pakistan's public debt has touched the dangerous level of 70% of GDP. Of course, numbers are important, but more vital is discussion on all aspects of debt-slavery—a new form of subjugation that needs to be exposed and countered through self-reliance by exploiting our indigenous natural and human resources. The fundamental question to be asked and debated is: **why in the name of people, our elites have been recklessly borrowing money and paying huge amounts in debt servicing, which is now more than double the amount we spend on defence!**

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 the economic front was abysmal. They resorted to regressive taxes yet failed to bridge the burgeoning fiscal deficit—it hit a historic high of 8.9% of GDP for fiscal year 2018-19. A study<sup>101</sup>, issued by the

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<sup>101</sup> International Monetary Fund, *Why Improving Fiscal Institutions is Critical to the Middle East and Central Asia*, IMF Country Focus, October 28, 2019, <https://www.imf.org/en/News/Articles/2019/10/25/na102819-why-improving-fiscal-institutions-is-critical-to-the-middle-east-and-central-asia>

International Monetary Fund (IMF) in October 2019, predicted that Pakistan's public debt<sup>102</sup> might surge to 78.6% of GDP.

The government of PMLN [2013-18] employed all kinds of measures, from introduction of cash margin to imposition of heavy regulatory duties on imports but failed to curtail the current account and trade deficit. The trade deficit hit US\$ 33.9 billion as imports increased to US\$ 55.2 billion during July 2017 to May 2018. Even 14% devaluation of the rupee since December 2017 could not help in reducing the import bill.

On June 11, 2018, rupee witnessed devaluation of 3.8% and resultantly foreign loan increased by the same ratio. The impact of earlier devaluation made in March 2018 was around Rs. 393 billion. On June 11, 2018, the government increased the prices of petroleum products (POL) by 8.9%. This was bound to increase inflation and higher discount rate by State Bank of Pakistan (SBP). The continuous deterioration in macroeconomic indicators was worrisome for caretakers in 2018 for a few days, but it posed a daunting challenge for the new coalition government of PTI assuming charge in August 2018.

The unelected Finance Minister, Miftah Ismail, on May 14, 2018, told the National Assembly that borrowing of Rs. 22 trillion would be necessary for 2018-19 for payment of domestic/foreign debts/debt servicing. Thus, for the newly elected government, the deadly debt trap was already laid by PMLN. Due to thoughtless policies of the economic wizard of PMLN, Muhammad Ishaq Dar, the country's

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<sup>102</sup> Ashfaq H. Khan, "Rising Debt: A Serious Threat to National Security." *Working Paper 3* (2016). 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.*

external debt and liabilities reached US\$ 98.16 billion by the end of February 28, 2018.

The position of internal debts was equally alarming. According to SBP, it stood at Rs. 26.8 trillion as on May 1, 2018—it was Rs. 22.5 trillion as on June 30, 2017. The consequences of economic mess were obvious: more borrowing and taxes by the new government after elections on July 25, 2018, retarding growth, affecting fixed income earners and the poor. Further debts meant more squeezing of fiscal space—enormous debt-servicing leading to deadly debt trap that was, to borrow just to pay interest of old debts.

Historically, our rulers, military and civilian alike, have been seeking **bailouts** from IMF. With every loan came harsh conditions—ostensibly meant for economic revival/reforms but each 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 PTI, claiming before coming to power that they would make Pakistan self-reliant and would never seek any IMF's bailout.

Under PTI, Pakistan signed \$11.3 billion Stand-by Arrangement (SBA) with IMF in 2018 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 2020, culminating in an unsuccessful ending on September 30, 2021. The main responsibility of failure was with then, Dr. Abdul Hafeez Shaikh, Economic Minister during PPP's rule who was later selected by the government of Pakistan Tehreek-i-Insaf (PTI) for economic revival! Pakistan secured yet another bailout from IMF of US\$ 6 billion.

The target assigned to FBR for 2018-19 was Rs. 4435 billion [revised downwards to Rs. 4398 billion and then to Rs. 4150 billion] by PTI government. FBR collected merely Rs. 3828.5 billion showing negative growth of 0.4%. This resulted in fiscal deficit of over Rs. 2.5 trillion. PTI Government claimed it was not responsible for it as due to wrong policies and fiscal mismanagement of economic wizards (sic) of Pakistan Muslim League (Nawaz) it was bound to happen.

The dismal performance of FBR in 2018-19 adversely affected the provinces, heavily dependent on collection by the Centre. The size of the cake was so small that provinces faced a serious crunch of funds. In these circumstances, it was inconceivable to come out of debt trap or spend adequately for people's welfare. Provinces were also not ready to collect taxes due from the rich, generate their own resources and initiate fiscal devolution as envisaged under Article 140A of the Constitution. FBR's failure to meet the assigned target, and inability of provinces to raise sufficient resources at their own created a fiscal fiasco.

The root cause of our economic and fiscal problems is, however, not tax collection but inefficient and corrupt government apparatus, loss-bearing public sector enterprises, wasteful expenditure, circular debt and blocking of genuine refund by FBR. For progressing, we need to dismantle all elitist structures. Empowerment of masses at grass root level 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 US\$ 400 million loan from World Bank for Pakistan Raises Revenue Project<sup>103</sup>.

The biggest and perpetual challenge faced by FBR is bridging monstrous tax gap. The World Bank in its report, *Pakistan Revenue*

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<sup>103</sup> World Bank Group, *Pakistan Raises Revenue*, accessed November 6, 2024, <https://projects.worldbank.org/en/projects-operations/project-detail/P165982?lang=en>

*Mobilisation Project*<sup>104</sup>, 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).*

Political instability and the rulers' inability to govern has led the country towards an economic disaster. After the regime change through vote of no confidence on April 10, 2022, the alliance government of Pakistan Democratic Movement, (PDM) took oath with the promise to provide relief to the people already struggling to meet their needs. However, after a lapse of one year, the government miserably failed to offer any relief. On the contrary, inflation crossed 44%.

Shehbaz Sharif, then Prime Minister of Pakistan, on completing one year in office, through tweets [reported by Business Recorder<sup>105</sup> on April 12, 2023] highlighted the overall economic challenges faced by his government blaming his predecessor for leaving economic landmines, and disruptions in global fuel and food supply lines. The

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<sup>104</sup> Clelia Kalliopi Helena Rontoyanni, *Project Information Document - Pakistan Revenue Mobilization Project - P165982*, World Bank Group, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/637701556009042302/project-information-document-pakistan-revenue-mobilization-project-p165982>

<sup>105</sup> "Economy has stayed afloat": PM Shehbaz recaps a year of PDM government," *Business Recorder*, April 11, 2023, <https://www.brecorder.com/news/40236529/economy-has-stayed-afloat-pm-shehbaz-recaps-a-year-of-pdm-govt>

Prime Minister claimed that his government was taking pains to repair, rebuild and deepen Pakistan's diplomatic relations, which was dealt a severe blow by the previous regime. He also mentioned 2022 unprecedented floods his government had to face yet was making efforts to diversify the energy mix to provide relief and target subsidies to the people of Pakistan. He further added that PDM government was successful in removing Pakistan's name from the list grey list of Financial Action Task Force (FATF).

Shehbaz Sharif linked the current price hike to the geo-strategic rivalries, rise in fuel prices, and historic floods. However, he failed to mention his government's failure to address concerns of international lenders, especially the IMF, in time. The Prime Minister failed to acknowledge mismanagement of economy by his two finance ministers, namely, Miftah Ismail and his successor Muhammad Ishaq Dar, in pushing the country to an economic meltdown and historic high inflation, especially in food items.

The World Bank's report, *South Asia Economic Focus (Spring 2023)*<sup>106</sup>, points out that distortive policy measures, period of exchange rate caps, import controls, and delay in IMF's Extended Fund Facility (EFF) programme are the main causes of the current economic disaster. The report further highlights that the potential risk to the economic outlook is still lurking due to non-completion of IMF programme as well as failure to obtain expected financing needs.

The report further states that the decline witnessed in economic activity from July to December 2022 was due to the floods. The external account weakened in the first half (H1) of fiscal year (FY) 2023 due to a shortfall in foreign exchange reserves, but due to import embargo, trade deficit declined by 32% on year-on-year basis.

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<sup>106</sup> World Bank, *Macro Poverty Outlook*, October 2024, <https://thedocs.worldbank.org/en/doc/5d1783db09a0e09d15bbcea8ef0cec0b-0500052021/related/mpo-pak.pdf>



An overall outlook of the country, having fifth largest population of the world at 235.8 million, with current GDP of US\$ 380.6 billion and per capita GDP US\$1613.8, was facing daunting challenges for its survival. Dependent on imports, the country is left with no choice, but to restrict these to maintain foreign exchange reserves. Resultantly, it not only discouraged formal business activity but also forced traders to use informal ways to run their businesses. Similarly, the government's failure to control currency smuggling severely affected its foreign exchange reserves. This fact was also emphasized in the World Bank's report that remitters were preferring informal or non-banking channels over formal ones, to transmit funds due to huge differences in currency rates.

Coercive measures to curb imports had a direct bearing on exports that were heavily dependent on imports. Official statistics showed that due to import restrictions, current account for Jul-Feb of FY 2023 posted a deficit of US\$ 3.9 billion as against US\$ 12.1 billion last year. This was mainly due to US\$ 37.4 billion imports (FOB basis) compared to US\$ 47.3 billion last year, a 21% decline during Jul-Feb FY 2023. Though import restrictions helped to reduce current account deficit, the major setback was witnessed by the export sector. Our exports during July-Feb for FY 2023 (FOB basis) dwindled significantly by 9.7% and reached US\$ 18.6 billion as compared to US\$ 20.6 billion last year.

The general atmosphere of the country was rather bleak. We were facing political, security, economic and judicial challenges while due to rising terrorism, security forces were planning a military operation. In this scenario weak economic conditions could not sustain those challenges. Failure to comply with IMF had already caused huge financial loss to the government, that was badly affecting our currency rate and adding to the miseries of the common people.

Our successive governments have never realized that the country's sustainability lies in structural reforms that alone could have fixed our governance and economic affairs.

## **B. Challenges to Fiscal Management**

Let Prime Minister Shehbaz Sharif 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 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.

The track record of FBR shows remote possibility of collecting even Rs. 20 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.

Fiscal decentralization 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 a will to collect income tax from the rich and mighty—meagre collection of agricultural income tax—less than Rs. 3 billion by all provinces and Centre in fiscal year 2023-24—should be a serious cause for concern. It is imperative that the 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 provinces<sup>107</sup>.

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 utilize it for the welfare of their denizens.

Fiscal decentralization 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 Constitution<sup>108</sup>. 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

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<sup>107</sup> "Taxing agricultural income: qua Constitution", *Business Recorder*, April 9, 2010, <https://www.brecorder.com/news/3750033>

<sup>108</sup> "Municipal self-governance," *Business Recorder*, July 19, 2013, <https://fp.brecorder.com/2013/07/201307191212785/>

takes the form assisting the poor and the needy, and thus implicitly defining them as certain types of social groups.

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 decentralization, local governments' financial resources must be 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.

### C. NFC and Fiscal Stability

It is a bitter reality that after the 7<sup>th</sup> NFC Award, both the federal government and provinces failed to observe strict financial discipline. The 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 a write-up, *Federation's fiscal dismemberment*<sup>109</sup>, it is insinuated that “the imbalances triggered by the 7<sup>th</sup> 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***<sup>110</sup>:

*“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”.*

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<sup>109</sup> Muhammad Zubair Khan, “Federation’s fiscal dismemberment,” *Dawn*, July 09, 2018, <https://www.dawn.com/news/1418913>

<sup>110</sup> Ali Salman, “Economic stability put on back burner by major political parties,” *The Express Tribune*, July 09, 2018, <https://tribune.com.pk/story/1753024/2-economic-stability-put-back-burner-major-political-parties/>.

Position under 7<sup>th</sup> NFC Award

Salient features	Who will get what?			
<p>* Final share of provinces: Punjab 51.74 percent, Sindh 24.55 percent, Khyber Pakhtunkhwa (KPK) 14.62 percent and Balochistan 9.09 percent.</p> <p>* Federal collection charges to be reduced from 5% to 1%</p> <p>* Sindh to receive additional transfer of Rs. 6 billion from federal government</p> <p>* Provinces in agreement on multiple indicators and respective weights<sup>111</sup></p> <p>* Sales tax acknowledged as provincial subject</p> <p>* KPK to be given additional 1% from federal divisible pool</p>	<b>Vertical distribution</b>			
		<b>7<sup>th</sup> NFC</b>	<b>6<sup>th</sup> NFC</b>	<b>Change</b>
	Centre	44%	52.5%	-8.5
	Provinces	56%	47.5%	+8.5
	<b>Horizontal distribution</b>			
		<b>7<sup>th</sup> NFC</b>	<b>6<sup>th</sup> NFC</b>	<b>Change</b>
	Punjab	51.74%	53.01%	-1.27%
	Sindh	24.55%	24.94%	-0.39%
	KPK	14.62%	14.88%	-0.26%
	Balochistan	9.09%	7.17%	+1.92%
<b>Projected amount (in billions)</b>				
	<b>FY</b>	<b>FY</b>	<b>FY2020</b>	
	<b>2018</b>	<b>2019</b>		
Punjab	1282	1205	1611	
Sindh	649	616	814	
KPK	426	404	533	
Balochistan	233	238	295	

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

<sup>111</sup> 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%).

Since 2009, our politicians sitting in parliaments—federal and provincial—and their economic managers have been following the 7th NFC Award—even in 2024 it was followed in budget exercises by the federation and federating units without considering 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 of 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.

Pakistan is in dire need of fiscal decentralization—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 their respective territories—a right available to the provinces before 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 services<sup>112</sup>.

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 privatize loss-bearing government-owned corporations, accelerate industrialization 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 decentralization 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 publicly 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 will be tackled and solved.

Municipal taxation should be our top priority as envisaged under Article 140A of the Constitution. Political, administrative and fiscal decentralization is the key to democratization 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.,

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<sup>112</sup> Centre-provincial harmony: Equitable distribution of fiscal rights needed, *Business Recorder*, March 13, 2006.



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 2023 spent €52 billion. Country tax collection was 44% of GDP.

If a country of 5.6 million people (Finland) can achieve 44% tax-to-GDP level and through municipal taxation can provide free services of health and education, a nation of 240 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. As a result, power is not with the people but in the hands of the privileged few.

The Parliament, first of all, should introduce the 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 harmonized 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 the social welfare model is implemented.

It also needs to be highlighted that the performance of provinces in collecting agricultural income tax is extremely appalling. After the 18th Amendment, the 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 levels arising from absence of political will to collect income tax from the rich classes—the meagre collection of agricultural income tax—less than Rs. 3 billion by all provinces and the Centre in fiscal year 2023-24—is lamentable.

We need to formulate a rational economic/tax policy aimed at incentivizing 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 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.

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 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 the public and not the powerful segments of society alone.

In view of Article 156(2), the role of the National Economic Council (NEC) has become very important though it has not yet been realized by the centre and provinces. Planning, in the aftermath of the 18th Amendment should be federalized rather than centralized. The 18th Amendment redefined NEC on the pattern of Council of Economic Interests (CCI). 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 the NFC Award vis-à-vis provisions of 18th Amendment must be examined holistically.

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 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 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) departments are 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 be realized. Through consensus and democratic process, all the parliaments can enact laws for establishing an autonomous National Tax Agency that can facilitate people to deal with a single Revenue Authority 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 Interest [Article 153] and its control can be placed under National Economic Council [Article 156].

It is strange that with the devolution of a large number of subjects to the provinces since the Eighteenth Constitutional Amendment in 2010, Planning Commission is still working as arm of Federal Government without considering the command of Article 156(2) of the Constitution which says:

“The National Economic Council shall review the overall economic condition of the country and shall, for advising the Federal Government and the Provincial Governments, formulate plans in respect of financial, commercial, social and economic policies; and in formulating such plans, it shall, amongst other factors, ensure balanced development and regional equity and shall also be guided by the Principles of Policy set out in Chapter 7 of Part II”.

Deletion of national planning as a subject from the exclusive domain of the Federal Government and placing of NEC in the list of subjects mandated to be the joint responsibility of the Federal Government and the Provincial Governments remain unnoticed by

our parliamentarians and independent experts. Strangely, provinces have not raised this issue till today.

Centralized planning was an important factor in the dismemberment of the country in 1971. The planning, in the post-Eighteenth Amendment period should have to be federalized rather than centralized. But nobody has taken notice. NEC forms part of the Chapter 3 of the Constitution entitled 'Special Provisions'. Before the Eighteenth Amendment, Article 156 related to NEC had two clauses. Clause (1) described the composition and clause (2) its functions. These clauses have undergone important changes since the Eighteenth Amendment. The pre-amendment clause (1) read as follows:

"The President shall constitute a National Economic Council consisting of the Prime Minister, who shall be its Chairman, and such other members as the President may determine:

*Provided that the President shall nominate one member from each Province on the recommendation of the Government of that Province."*

While NEC, the apex planning body has been federalized, the Planning Commission continues to be centralized. The spirit of the Constitution can be satisfied by (1) making Planning Commission, in place of the Cabinet Division, the Secretariat of the NEC and (2) by reducing the number of its members to five, one each from the Provinces and the Federal Government. Prime Minister chairs the NEC and there is no need for him to Chair the Planning Commission. The Chairman should be appointed by CCI to represent the Federation.

There is an urgent need for restructuring the planning mechanisms in the provinces. At present, the provincial planning and development boards/departments are not working in harmony with NEC. An important reason why the centralized role of planning and the Planning Commission continues is the weak capacity of the provincial planning mechanisms. After the Eighteenth Amendment,

the Planning Commission could no more be a centralized body. Federal Legislative List, Part I, contains subjects which lie in the exclusive jurisdiction of the Federal Government. Before the Eighteenth Amendment, its item 32 related to planning– “National planning and national economic coordination including planning and coordination of scientific and technological research.” After the Amendment, the subject was included in the Federal Legislative List, Part II. The last-mentioned list of subjects is neither exclusively federal nor provincial; it is an area of joint responsibility. In the Constitution, a special institution, the Council of Common Interests (CCI), has been created to supervise the affairs of the Federation listed in Part II of the Federal Legislative List.

We need amendments in the 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 tax-to-GDP ratio. 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 bureaucrats alone sitting behind closed doors, through rational policies and pragmatic decisions based on research suggesting solutions and taking all 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.



# Appendices





## Appendix A: FBR Tax Collection

It is divided into two segments. The first one is as per State Bank of Pakistan from 1948-49 to 2019-20 with footnotes where reporting figures differ from FBR. The second segment is based on figures reported in Economic Surveys and annual Year Books of FBR as published from 1996-97 onwards.

**Table A-1: FBR Tax Collection: 1948-49 to 2015-16**  
(As per data of State Bank of Pakistan)

Fiscal Year	Direct Taxes	(Rs. in million)			Total of Indirect Taxes	Total Tax Collection	Indirect tax ratio	Direct tax ratio
		Sales	Excise	Customs				
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%

## Appendix A: FBR Tax Collection

1970-71	949	608	2,020	1,407	4,035	<b>4,984</b>	81.0%	19.0%
1971-72	1,257	482	2,111	1,312	3,905	<b>5,162</b>	75.6%	24.4%
1972-73	1,195	461	2,211	2,641	5,313	<b>6,508</b>	81.6%	18.4%
1973-74	1,257	692	2,895	4,175	7,762	<b>9,019</b>	86.1%	13.9%
1974-75	1,447	1,074	3,670	4,746	9,490	<b>10,937</b>	86.8%	13.2%
1975-76	2,244	1,200	4,585	5,164	10,949	<b>13,193</b>	83.0%	17.0%
1976-77	2,734	1,363	5,429	6,138	12,930	<b>15,664</b>	82.5%	17.5%
1977-78	2,909	1,590	6,299	8,390	16,279	<b>19,188</b>	84.8%	15.2%
1978-79	3,424	1,935	6,916	10,124	18,975	<b>22,399</b>	84.7%	15.3%
1979-80	5,333	2,410	9,701	12,572	24,683	<b>30,016</b>	82.2%	17.8%
1980-81	7,182	2,893	10,413	14,276	27,582	<b>34,764</b>	79.3%	20.7%
1981-82	8,486	3,251	11,740	15,074	30,065	<b>38,551</b>	78.0%	22.0%
1982-83	8,624	3,489	12,675	18,510	34,674	<b>43,298</b>	80.1%	19.9%
1983-84	8,788	4,624	15,387	21,532	41,543	<b>50,331</b>	82.5%	17.5%
1984-85	9,312	4,674	15,053	23,371	43,098	<b>52,410</b>	82.2%	17.8%
1985-86	9,782	4,928	15,149	29,343	49,420	<b>59,202</b>	83.5%	16.5%
1986-87	10,568	6,409	14,960	33,364	54,733	<b>65,301</b>	83.8%	16.2%
1987-88	11,841	8,743	16,840	38,001	63,584	<b>75,425</b>	84.3%	15.7%
1988-89	13,920	14,700	19,399	42,362	76,461	<b>90,381</b>	84.6%	15.4%
1989-90	15,642	18,574	21,433	48,584	88,591	<b>104,233</b>	85.0%	15.0%
1990-91	19,871	17,008	23,087	50,528	90,623	<b>110,494</b>	82.0%	18.0%
1991-92	28,851	20,799	28,305	61,821	110,925	<b>139,776</b>	79.4%	20.6%
1992-93	36,771	23,521	31,546	61,400	116,467	<b>153,238</b>	76.0%	24.0%
1993-94	43,452	30,379	34,520	64,240	129,139	<b>172,591</b>	74.8%	25.2%
1994-95	61,660	43,574	43,691	77,653	164,918	<b>226,578</b>	72.8%	27.2%
1995-96	78,165	49,841	51,115	88,916	189,872	<b>268,037</b>	70.8%	29.2%
1996-97	85,060	55,668	55,265	86,094	197,027	<b>282,087</b>	69.8	30.2
1997-98	103,182	53,942	62,011	74,496	190,449	<b>293,631</b>	64.9	35.1
1998-99	110,207	72,105	60,905	65,292	198,302	<b>308,509</b>	64.3	35.7
1999-00	112,950	116,711	55,784	61,659	234,154	<b>347,104</b>	67.5	32.5
2000-01	124,585	153,565	49,080	65,047	267,692	<b>392,277</b>	68.2	31.8
2001-02	142,505	166,561	47,186	47,818	261,565	<b>404,070</b>	64.7	35.3
2002-03	151,898	195,139	44,754	68,836	308,729	<b>460,627</b>	67.0	33.0
2003-04	165,079	219,167	45,552	91,045	355,764	<b>520,843</b>	68.3	31.7
2004-05	183,372	238,537	53,104	115,374	407,015	<b>590,387</b>	68.9	31.1
2005-06	224,988	294,798	55,272	138,384	488,454	<b>713,442</b>	68.5	31.5

2006-07	333,737	309,396	71,804	132,299	513,499	<b>847,236</b>	60.6	39.4
2007-08	387,862	377,430	92,137	150,663	620,230	<b>1,008,092</b>	61.5	38.5
2008-09	443,548	451,744	117,455	148,403	717,602	<b>1,161,150</b>	61.8	38.2
2009-10	525,977	516,348	124,784	160,273	801,405	<b>1,327,382</b>	60.4	39.6
2010-11	602,451	633,357	137,353	184,853	955,563	<b>1,558,014</b>	61.3	38.7
2011-12	738,822	804,846	122,460	216,898	1,144,204	<b>1,883,026</b>	60.8	39.2
2012-13	743,410	842,525	120,922	239,459	1,202,906	<b>1,946,316</b>	61.8	38.2
2013-14	877,274	996,100	138,064	242,799	1,376,963	<b>2,254,237</b>	61.1	38.9
2014-15	1,033,720	1,087,790	162,248	306,220	1,556,258	<b>2,589,978</b>	60.1	39.9
2015-16	1,217,474	1,302,371	188,055	404,572	1,894,998	<b>3,112,472</b>	60.9	39.1
2016-17	1,344,226	1,328,965	197,911	496,772	2,023,648	<b>3,367,874</b>	60.1	39.9
2017-18	1,536,638	1,491,297	205,877	608,324	2,305,498	<b>3,842,136</b>	60.0	40.0
2018-19	1,445,508	1,459,213	238,186	685,575	2,382,974	<b>3,838,482</b>	62.2	37.8
2019-20	3908	3,991	3.7	102%	9.1	<b>62.5</b>	37.5	
*FBR's source								
2008-09	440,271	452,294	116,055	148,382	716,731	1,157,002	61.9%	38.1%
2009-10	528,649	517,302	121,182	161,489	799,973	1,328,622	60.2%	39.8%
2015-16	1,194,609	1,321,685	177,580	406,181	19,905,446	3,100,055	61.5%	38.5%

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

## FBR collection (1996-97 to 2023-24)

(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

## Appendix A: FBR Tax Collection

Year	Targets	Collection	Growth in Collection (%)	Target Achieved (%)	Tax to GDP ratio	Ratio in total taxes (%)	
						Indirect taxes	Direct taxes
2019-20	3908	3,991	3.7	102%	9.1	62.5	37.5
2020-21	4963	4764	16%	96%	10.4	64	36
2021-22	5829	6142	19%	105%	9.2	63	37
2022-23	7470	7169	14%	96%	8.5	55	45
2023-24	9415	9311	23%	99%	8.8	51	49

Source: *Economic Annual Surveys & FBR's Year Books*

**Note:** The claim of exceeding target by FBR stood exposed in 2019-20 as refunds of Rs. 710 billion were admittedly outstanding. If from collection of Rs. 3.9 trillion, this amount was deducted, the actual collection was Rs. 3.2 trillion (7.9% of GDP)<sup>113</sup>.

On September 2, 2020, before the National Assembly Standing Committee on Finance [hereinafter "the Committee], FBR 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 were under \$6 billion Extended Fund Facility (EFF) programme of International Monetary Fund [IMF] was quite amazing. After its first review and seeing that FBR was far behind the original target of Rs. 5555 billion, 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.

Target fixed by PTI Government for fiscal year 2020-21 for FBR was Rs. 4963 billion, amid heavy economic toll of Covid-19 endemic and minus growth. Interestingly, even according to then Advisor to Prime Minister on Finance and Revenue, Dr. Abdul Hafeez Shaikh,

<sup>113</sup> Shahbaz Rana, "Tax refund claims balloon to Rs710b," *The Express Tribune*, September 3, 2020, <https://tribune.com.pk/story/2262228/tax-refund-claims-balloon-to-rs710b>.

it was not achievable! In a statement he *“advised the provinces not to make their budgets on the basis of proposed Rs. 4.96 trillion tax collection targets 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 could happen only in Pakistan where the head of Finance Ministry openly admitted that budget was prepared on exaggerated revenue figures!**

Earlier, it was admitted<sup>114</sup> 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. In 2019, 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. The bulk of outstanding refunds, as was 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 was 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 actual collection of each year to which these blocked refunds related! But it never happened.

The following is a brief summary, according to Press report,<sup>115</sup> 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.

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<sup>114</sup> Shahbaz Rana, “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>.

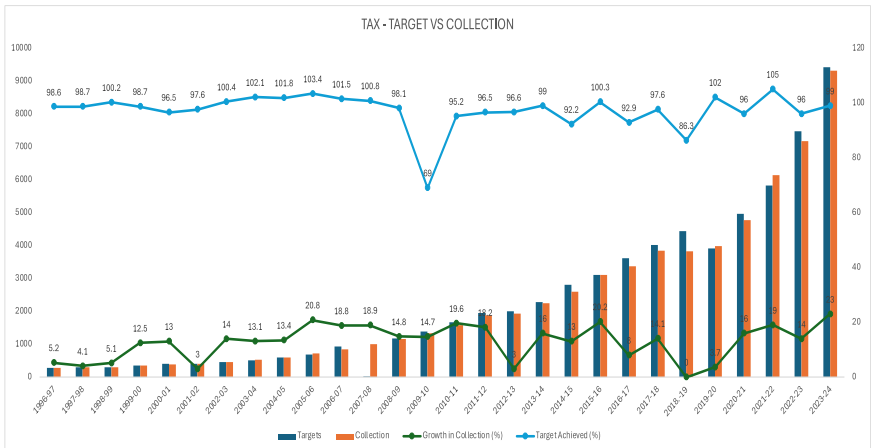
<sup>115</sup> Ibid.

- 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 income tax refund claims had been outstanding.
- Outstanding sales tax refund claims amounted to Rs. 112 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.
- To a question on actual tax collection from withdrawal of concessionary tax regime of 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 refunds, out of which Rs. 72.2 billion were paid and the remaining Rs. 33 billion were 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 criticized 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 situation remained the same till 2024. If fact in the last five years further refunds were blocked, for which no data has been released by FBR. However, reports published in media from time to time show that figure is as high as Rs. 2000 billion.

Figure B-1: Tax - Target vs Collection





## Appendix B: Sales Tax Base & Collection

Non-compliance or low compliance by 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
<b>Sindh</b>	60,425	38,954	63,195	40,440	65,582	41,513	67,826	42,215
<b>Punjab</b>	111,213	74,025	118,009	77,378	124,674	81,247	131,821	84,951
<b>KPK</b>	8,568	5,565	9,255	5,897	10,002	6,347	10,934	6,830
<b>Balochistan</b>	3,941	3,014	4,500	3,398	5,041	3,787	5,501	4,022
<b>Islamabad</b>	11,893	6,576	13,234	7,370	14,481	8,174	16,018	8,902
<b>Un-identified</b>	47	2	47	2	47	1	47	2
<b>Total</b>	196,087	128,136	208,240	134,485	219,827	141,069	232,147	146,922
<b>Compliance</b>		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
<b>Payment filer</b>	43,294	41,555	43,845	43,942
<b>Null Filers</b>	53,207	55,457	58,991	61,367
<b>Nil Filers</b>	31,635	37,473	38,233	41,613
<b>Total</b>	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) collection<sup>116</sup>.

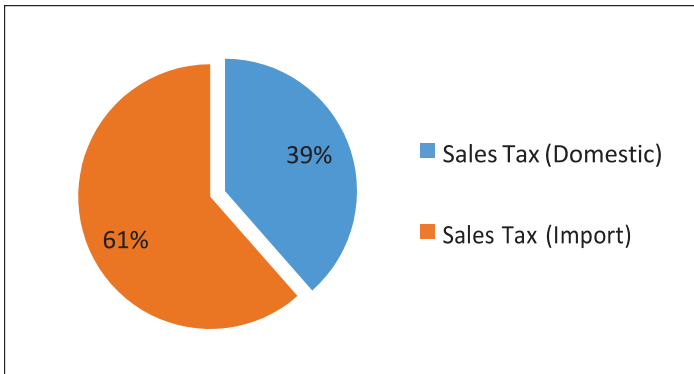
Figures for FY 2019-20 to 2023-24 on the above pattern are not available in any official publication of FBR or elsewhere. According

<sup>116</sup> Federal Board of Revenue, *FBR Quarterly Reviews (2010 to 2014)*, <https://www.fbr.gov.pk/fbr-biannual-quarterly-reviews/142253/132077>

to performance report by FBR, “number of new taxpayers registered for sales tax from July 2022 to June 2023 was 32,097”<sup>117</sup>. It is, however, reported in media that total registered persons are still below 300,000. Out of around 285,000 registered persons only about 45,000 are paying any tax and rest are filing returns of NIL and NULL.

Sales tax is levied at domestic and import stages excluding those items exempted in the Sixth Schedule of Sales Tax Act, 1990. According to FBR<sup>118</sup>, sales tax share in federal tax revenues during fiscal year (FY) 2022-23 has been around 36%. It contributed around 67% of indirect tax receipts. The net collection of sales tax stood at Rs. 2591 billion during FY 2022- 23, displaying a growth of 2.3% over the last fiscal year. Sales Tax (domestic) contributed about Rs. 998 billion in the total sales tax collection while sales tax on imports contributed around Rs. 1593 billion during FY 2022-23. Composition of Sales Tax is highlighted. A historical picture of Sales Tax collection is presented below:

**Figure B-2: Historical Trend of GST Collection**



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<sup>117</sup> Federal Board of Revenue, *FBR Annual Performance Report 2022-23*, <https://download1.fbr.gov.pk/Docs/2023121818121423230Annualreport2022-23published18Dec2023.pdf>

<sup>118</sup> Federal Board of Revenue, *Revenue Division Year Book 2022-2023*, <https://download1.fbr.gov.pk/Docs/2023112812111769FBRREVENUEDIVISIONYEARBOOK2022-23.pdf>

The gross collection of sales tax domestic stood at Rs. 1,278 billion. After paying sales tax refunds amounting to Rs. 280 billion (approx.), the net figure stood at around Rs. 998 billion. The details of performance of major revenue spinners of Sales tax (domestic) during FY 2022-23 compared to FY 2021-22 are presented below:

**Table B-3: Comparison of Sales Tax Domestic (Net) Collection by Major Commodities During FY: 2021-22 & FY: 2022-23**

(Rs. Million)

S. No.	Commodity Name	Collection		Growth (%)	(Share %)	
		2022-23	2021-22		2022-23	2021-22
1	Electrical Energy	223,219	149,536	493.	17.5	13.8
2	POL Products	151,863	107,018	41.9	11.9	9.9
3	Sugar	76,431	65,449	16.8	6.0	6.1
4	Natural Gas	47,696	37,058	28.7	3.7	3.4
5	Cotton Yarn	46,752	63,065	-25.9	3.7	5.8
6	Cement	41,762	35,925	16.2	3.3	3.3
7	Cigarettes	36,926	31,407	17.6	2.9	2.9
8	Aerated Waters/Beverages	18,346	16,101	13.9	1.4	1.5
9	Tea	17,341	12,297	41.0	1.4	1.1
10	Concentrates Used in Beverages/Foods	16,435	10,769	52.6	1.3	1.0
11	Coal Mines	13,500	7,820	72.6	1.1	0.7
12	Auto Parts	10,147	8,560	18.5	0.8	0.8
13	Food Products	10,077	7,469	34.9	0.8	0.7
14	Liquefied Petroleum Gas (LPG)	9,757	7,856	24.2	0.8	0.7
15	Biscuits	9,498	6,074	56.4	0.7	0.6
<b>Sub-Total</b>		<b>729,750</b>	<b>566,404</b>	<b>28.8</b>	<b>57.1</b>	<b>52.4</b>
Others		547,961	513,532	6.7	42.9	47.6
Gross		<b>1,277,711</b>	<b>1,079,936</b>	<b>18.3</b>	<b>100</b>	<b>100</b>
Refunds		279,867	288,400	-3.0		
Net		<b>997,844</b>	<b>791,536</b>	<b>26.1</b>		

Source: FBR Data published in *FBR Year Book 2022-23*.

Collection of sales tax at import stage largely depends on the volume and composition of imports. Sales tax at import stage is the major contributor at 61% of the total sales tax during FY 2022-23. Its net collection stood at about Rs. 1,593 billion in FY 2022-23, compared to Rs. 1,741 billion in FY 2021-22, exhibiting a decline of about 8% which is chiefly due to around 5% decline in the value of imports in FY 2022-23. It is worth mentioning that the increased rate of sales tax from 17% to 18% (and 25% on certain luxury items) in the second half of FY 2022-23 could not improve growth of collection from sales tax on imports.

The breakdown details confirm higher concentration of sales tax on imports on a few items as evident from fifteen major commodity groups which contributed around 79% of the collection of sales tax (import) in FY 2022-23. Details of top 15 commodity groups yielding collection of sales tax on import are presented here. Sales tax on imports contributed around 56 percent of the total sales tax.

**Table B-4: Comparison of Sales Tax Import- Collection by Major Commodities During FY: 2021-22 & FY: 2022-23**

(Rs. Million)

S. No.	Description	Collection		Growth (%)	% Share in ST (on imports)	
		2022-23	2021-22		2022-23	2021-22
1	POL Products (ch:27)	299,333	458,811	-34.8	18.8	26.4
2	Edible Oil (ch:15)	164,839	113,315	45.5	10.3	6.5
3	Iron and Steel (ch:72)	121,950	145,351	-16.1	7.7	8.4
4	Mechanical Machinery (ch: 84)	104,887	124,926	-16.0	6.6	7.2
5	Plastics, Resins etc (ch: 39)	102,765	100,322	2.4	6.4	5.8
6	Vehicles (ch:87)	76,421	136,827	-44.1	4.8	7.9
7	Organic Chemicals (ch:29)	75,029	78,476	-4.4	4.7	4.5

**Appendix B: Sales Tax Base & Collection**

S. No.	Description	Collection		Growth (%)	% Share in ST (on imports)	
		2022-23	2021-22		2022-23	2021-22
8	Cotton (ch: 52)	73,331	57,508	27.5	4.6	3.3
9	Electrical Machinery (ch: 85)	62,919	82,916	-24.1	3.9	4.8
10	Oil Seeds (ch: 12)	47,802	49,812	-4.0	3.0	2.9
11	Tea & Coffee (ch: 09)	30,684	25,001	22.7	1.9	1.4
12	Man-made Filaments (ch:54)	25,339	25,816	-1.8	1.6	1.5
13	Misc. Chemical products (ch: 34)	23,400	19,792	18.2	1.5	1.1
14	Man-made stable fibres (ch: 55)	22,408	24,773	-9.5	1.4	1.4
15	Paper & Paperboard (ch: 48)	21,725	18,673	16.3	1.4	1.1
<b>Sub-Total</b>		<b>1,252,832</b>	<b>1,462,319</b>	<b>-14.3</b>	<b>78.6</b>	<b>84.0</b>
Others		340,990	278,373	22.5	21.4	16.0
<b>Gross</b>		<b>1,593,822</b>	<b>1,740,692</b>	<b>-8.4</b>	<b>100</b>	<b>100</b>
Refunds/Rebates		233	-	-		
<b>Net</b>		<b>1,593,589</b>	<b>1,740,692</b>	<b>-8.5</b>		

Source: FBR Data published in *FBR Year Book 2022-23*.

**Table B-5: Sales Taxes Revenue Receipts 2021-22 & 2022-23**

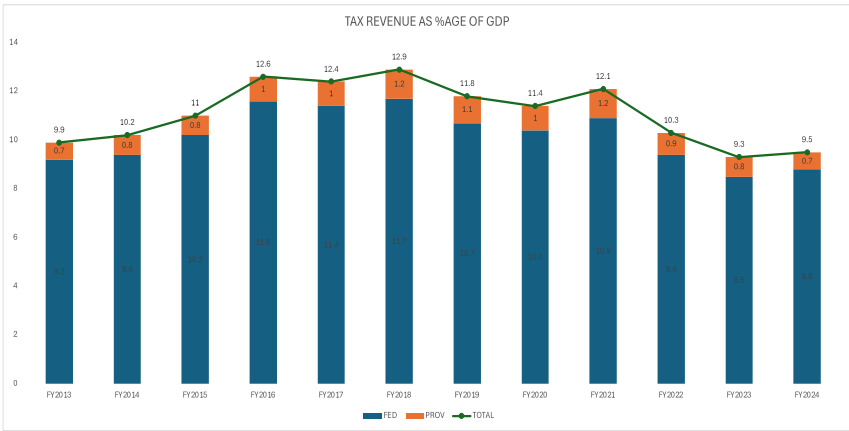
*(Rs. Million)*

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
<b>Sales Tax (Total)</b>	<b>1,485,306</b>	<b>1,459,213</b>	<b>-26,093</b>	<b>-1.8</b>

Source: FBR Year Book 2022-23

## Appendix C: Tax Collection/Tax Potential

For tax collection figures from 1948-49 to 2023-24 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

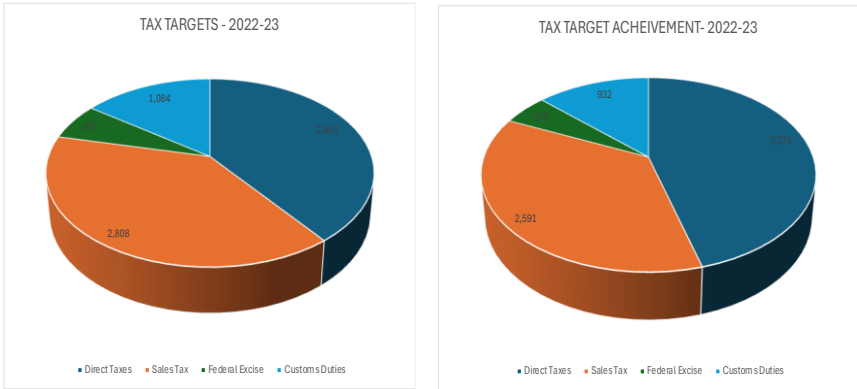
**Table C-1: Comparison of Collection vis-a-vis Target 2022-23**

(Rs. Billion)

Description	Targets	Collection	(%) Achievement of Targets
Direct Taxes	2,851	3,271	114.7
Sales Tax	2,808	2,591	92.3
Federal Excise	457	370	80.9
Customs Duties	1,084	932	86.0
<b>All Taxes</b>	<b>7,200</b>	<b>7,164*</b>	<b>99.5</b>

Source: FBR Data published in *FBR Year Book 2022-23*.

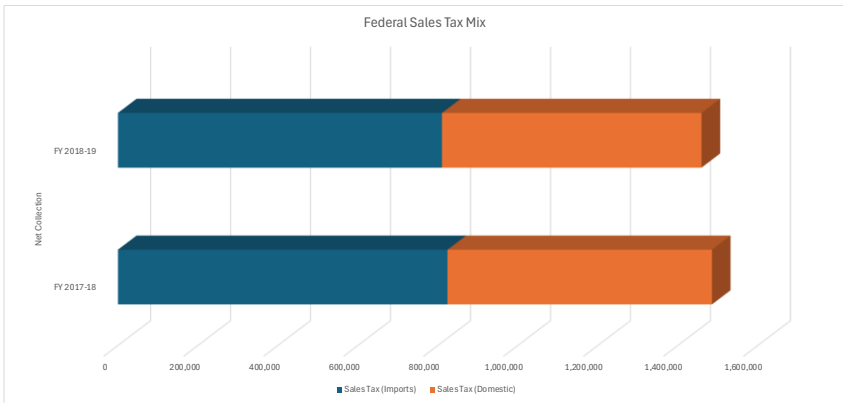
Figure C-2: Tax-wise Share (%) in Collection FY 2022-23



\* Figures are provisional and subject to reconciliation.

The breakdown of Direct Taxes in relation to growth and share is tabulated below. Collection from income tax constitutes the largest share of 98.2% and grew by around 41% during FY 2022-23 as compared to PFY. Collection from WWF/WPPF recorded a huge increase of 236.6% and made 1.5% contribution to Direct Taxes. This substantial growth occurred due to a 385% increase in collection from WWF and 223% increase in collection from WPPF. Although there were no rate increases of WWF/WPPF during FY2022-23 effective monitoring and enforcement is likely the driving force to achieve this high growth. Similarly, collection from CVT has an unprecedented increase during FY 2022-23 from Rs. 104 million to Rs. 10,105 million. The biggest spur in CVT collection arose from CVT on Motor vehicles which increased from Rs. 0.106 million in 2021-22 to Rs. 6,023 million during FY 2022-23 due to imposition of CVT on motor vehicles at 1% of the value.

Figure C-3: Composition of Sales Tax during FY 2022-23



Source: *FBR Year Book 2022-23*



## Appendix 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 Canada. These goods and services also include real property and intangible personal property. In Canada, generally, 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 would be beneficial for the entire federation as well as helping taxpayers to deal with only one revenue agency. Provinces would get full participation in the tax collection process as part of the 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 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 taxing 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 1st 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 1st 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 agreed 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 attained"<sup>119</sup>.

As per agreement, HST is collected by the Canada Revenue Agency, which then remits the appropriate amounts to the participating provinces. Studies<sup>120</sup> conducted have been equivocal about the success of HST implementation for the economies of participating provinces and their consumers.

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<sup>119</sup> David Murrell and Weiqiu Yu, "The Effect of the Harmonized Sales Tax on Consumer Prices in Atlantic Canada," *Canadian Public Policy/Analyse de politiques* 26, no. 4 (2000): 451-460, <http://qed.econ.queensu.ca/pub/cpp/Dec2000/Murrell.pdf>

<sup>120</sup> 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 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-rated<sup>121</sup>). 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.

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<sup>121</sup> Government of Canada, *Definitions of GST/HST*, <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/definitions-gst-hst.html#zero>

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;
- 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-added 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 Act, 2017<sup>122</sup>, is a national value added tax implemented in India in 2017. This is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, which replaced taxes levied by the central and state governments.

GST is levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. 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.

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<sup>122</sup> *Goods and Services Tax Act, 2017* (Act No. V of 2017), [https://www.indiacode.nic.in/bitstream/123456789/5532/1/goods\\_and\\_services\\_tax\\_act%2C\\_2017.pdf](https://www.indiacode.nic.in/bitstream/123456789/5532/1/goods_and_services_tax_act%2C_2017.pdf)

Administrative responsibility is generally rest with a single authority to levy tax on goods and services. Exports are zero-rated and imports are subjected to 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 Act (GSTA) 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. 8000 billion through integrated sales tax on goods and services as against collection of around Rs. 3098 billion by the Federal Government through sales tax on goods in 2023-24 and provinces by sales tax on services [cumulatively Rs. 504 billion]. The additional revenue collection of around Rs. 4398 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 strict as per the 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 Harmonized 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 aspects. Following is 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 the 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 freer from ambiguity.
- The GST is a destination-based tax, not the original one. In such circumstances, it should be clearly identifiable as to where the goods are going. This shall be difficult in the 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 has to be made, and professionals like us really have to take the onus to assume this responsibility"<sup>123</sup>.

Pakistan and India are federal states, and the introduction of harmonized sales tax requires consensus and concurrent implementation by the federal and provincial governments.

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<sup>123</sup> "How will the goods and services tax (GST) work in India? How is it any different than the value-added tax (VAT)?," *Quora*, <https://www.quora.com/How-will-the-goods-and-services-tax-GST-work-in-India-How-is-it-any-different-than-the-value-added-tax-VAT>

## 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 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 a 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 the 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 to obtain views of the states. After the final inputs, the Goods and Services Tax Bill or GST Bill was passed by the Indian Parliament.

### Malaysian perspective

#### Introduction

Goods and Services Tax (GST) and Sales and Service Tax (SST) are in operation<sup>124</sup>.

In Malaysia, the Sales and Services Tax (SST) is paid by consumers when they purchase goods or services that are subject to the tax. However, businesses are responsible for collecting and remitting the SST to the government.

SST, or Sales and Service Tax, is the major consumption tax that is charged on the sale of goods and services. Since SST is a consumption tax in Malaysia, tax burden is ultimately borne by consumers. This means that businesses are responsible for collecting tax from consumers as part of the purchase price and remitting it to the government.

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<sup>124</sup> "What is SST in Malaysia: Meaning, Exemption List, Rate 2024 and Calculation," *ClearTax*, September 9, 2024, <https://www.cleartax.com/my/en/sst-in-malaysia>

SST comprises two separate taxes: Sales Tax and Service Tax.

- Sales Tax is applicable to taxable goods either manufactured in or imported into Malaysia, while Service Tax is levied on specific services provided by businesses in Malaysia.
- SST is applied at a single stage, either during the manufacturing process or at the point of consumption of goods and services.
- Sales and Services Tax in Malaysia was officially reintroduced on 1 September 2018, replacing the former Goods and Services Tax (GST) system.

Malaysia's SST regime encompasses different tax rates based on the nature of goods and services. Here's a breakdown of the various Malaysia SST rates:

- Sales Tax at 5%: A spectrum of products falls under a 5% sales tax, including petroleum oils, construction materials, timepieces, and certain foodstuffs.
- Sales Tax at 10%: This rate is the standard sales tax rate in Malaysia, levied on taxable goods and imported taxable goods. The 10% rate is generally applied to luxury items or goods that are not considered essential.
- Service Tax at 8%: Effective from 1 March 2024, the service tax rate is to be increased from 6% to 8% for all services except for food & beverage services, telecommunication services, parking services and logistics services (new taxable services).
- Service tax at 6%: Food & beverage services, telecommunication services, parking services and logistics services (new taxable services)
- Zero-rated supplies are taxable supplies taxed at a 0% SST rate, creating a distinction from exempted goods, which are

non-taxable and hence, not subjected to Sales and Services Tax in Malaysia.

Businesses involved in offering taxable goods and services are required to register for Sales and Services Tax in Malaysia, provided they fulfil certain criteria outlined below:

### For Sales Tax Registration

- Engaged in the manufacture of taxable goods.
- The total sales value over the preceding 12 months surpasses RM 500,000.

### For Service Tax Registration

- Engaged in providing taxable services.
- The cumulative value of taxable services over the last 12 months exceeds the stipulated threshold, typically set at RM 500,000, although certain services may be subject to different thresholds.
- The deadline for registration is the last day of the month following the month where sales of taxable goods or services surpass the stipulated threshold.

Sale Tax Act 2018<sup>125</sup> (GST) is a broad-based consumption tax in Malaysia covering all sectors of the economy i.e., all goods made in Malaysia including imports except specific goods 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 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

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<sup>125</sup> "Laws of Malaysia Act 806, Sales Tax Act 2018," Percetakan Nasional Malaysia Berhad [https://mysst.customs.gov.my/assets/document/SST%20Act/Sales%20Tax%20Act%202018\\_b.pdf](https://mysst.customs.gov.my/assets/document/SST%20Act/Sales%20Tax%20Act%202018_b.pdf)



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.

Goods created for export purposes are exempt from sales tax in Malaysia, promoting the country's export-oriented industries. Additional categories like perishable goods, printed materials, bicycles, and pharmaceutical products are also exempt from sales tax, reflecting the government's intention to ensure essential goods' affordability and promote healthy living and education.

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."

## Appendix E: National Tax Court Bill, 2025

ACT NO. ----- OF 2025

An Act to provide for the adjudication, by a National Tax Court, 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 Court Act, 2025.

(2) It extends to the whole of Pakistan.

(3) It shall come into force on such a 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 Court" means the National Tax Court constituted under section 3; (b) "appointed day" means the date with effect from which the National Tax Court is established, by notification, under section 3; (c) "Bench" means a Bench of the National Tax Court; (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 National Tax Court and includes the President; (g) "notification" means a notification published in the Official Gazette; (h) "President" means the President of the National Tax Court; (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 National Tax Court.** The Federal Government shall by notification, establish a tax National Tax Court, to be known as National Tax Court, to exercise the

jurisdiction, powers and authority conferred on such National Tax Court by or under this Act.

**4. Composition of the National Tax Court and Benches thereof.** (1)

The National Tax Court shall consist of a President and such number as the President with the approval of Chief Justice of Pakistan may deem fit, and subject to the other provisions of this Act, the jurisdiction, powers and authority of the National Tax Court 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 National Tax Court 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 National Tax Court.

(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 from 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 National Tax Court, 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 National Tax Court.** (1) The President shall determine the nature and categories of the officers and other employees required to assist the National Tax Court in the discharge of its functions and provide the National Tax Court with such officers and other employees as it may think fit.

(2) The officers and other employees of the National Tax Court 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 National Tax Court shall be the same as that of judicial staff of High Courts.

**14. Jurisdiction, powers and authority of the National Tax Court.**

Save as otherwise expressly provided in this Act, the National Tax Court 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 National Tax Court 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 National Tax Court; (b) the references to the Advocate-General shall be construed, in relation to the National Tax Court, as a reference to the Attorney-General.

**16. Distribution of business amongst the National Tax Court and its Benches.**

(1) Where any Benches of the National Tax Court are constituted, the President may, from time to time, by order, make provisions as to the distribution of the business of the National Tax Court 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 National Tax Court, the decision of the President thereon shall be final.

**17. Appeals to National Tax Court.**

(1) Subject to the other provisions of this Act, every appeal to the National Tax Court 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 National Tax Court as if it were an appeal presented within the time specified in sub-section (1).

(3) The National Tax Court 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 National Tax Court 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 National Tax Court.** (1) The National Tax Court 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 National Tax Court shall have power to regulate its own procedure, including the fixing of places and times of its hearing.

(2) The National Tax Court 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 National Tax Court is of opinion that the deposit of duty demanded or penalty levied would cause undue hardship to such person, the National Tax Court 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 National Tax Court 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 National Tax Court.

(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 National Tax Court.

**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 National Tax Court 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 National Tax Court 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 National Tax Court.** (1) The National Tax Court 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 National Tax Court may think fit, for a fresh adjudication or decision, as the case may be, after taking additional evidence, if necessary.

(2) The National Tax Court 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 National Tax Court has given notice to him of its intention to do so and has allowed him a reasonable opportunity of being heard.

(3) The National Tax Court 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 371 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 National Tax Court 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 National Tax Court, Customs, Excise and Sales tax National Tax Court, immediately before the appointed day, being a suit, appeal or other proceeding which would have been within the jurisdiction of the National Tax Court, if it had arisen after such day, shall stand transferred on that day to the National Tax Court: 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 National Tax Court under sub-section (1), the National Tax Court 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 National Tax Court 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 National Tax Court, or the Customs, Excise and Sales tax National Tax Court and was authorised to appear or to act in any proceedings transferred from the said court, other authority or Tribunal to the National Tax Court under this section shall have the right to appear or to act, as the case may be, before the National Tax Court in relation to the said suit, appeal or other proceeding.

**27. Proceedings before the National Tax Court to be judicial proceedings.** All proceedings before the National Tax Court 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 National Tax Court under sub-section (3) of section 13; (d) the form in which every appeal to the National Tax Court 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 National Tax Court shall have power to regulate its own procedure under sub-section (1) of section 19 and the additional matters in respect of which the National Tax Court 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 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.

## Appendix F: Taxpayers' Bill of Rights

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 well as provision of public goods enhancing social welfare, 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 wasteful expenditures.
5. The right to have protection from higher/unjust/unreasonable taxes without voters' or their elected representatives' 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 and right to information about exact avenues of spending of revenue generated from different sources of taxes.

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 especially for those who cannot afford the services of the consultant and by deployment of latest virtual and software for on-line access.
17. The right to obtain information and prompt, accurate responses to questions and request 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.
19. The right to have proper service of notices of any kind and application of all possible modes of service before passing ex-parte 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 specified 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 number 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 electric 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 of 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 network, responsive to answer any query by a taxpayer.
49. The right to have honest, competent, efficient, well behaved and trustworthy 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.

## Endnotes

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<sup>i</sup> <https://thefridaytimes.com/25-May-2024/the-retail-sector-s-dollar-15-billion-tax-potentia>

<sup>ii</sup> *Country Report 16/2* (January 2016) prepared by Ms. Serhan Cevik (FAD) of International Monetary Fund (IMF)

<sup>iii</sup> Telecom taxes in Pakistan second highest in the world, Daily Times, January 8, 2016

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

<sup>v</sup> In World Bank 'Doing Business 2016' Pakistan's ranking has gone down to 138 from 136

<sup>vi</sup> Text is available at website of National Assembly:

[http://www.na.gov.pk/uploads/documents/1451661513\\_222.pdf](http://www.na.gov.pk/uploads/documents/1451661513_222.pdf)

<sup>vii</sup> Breaking Debt Prison, Huzaima Bukhari & Dr. Ikramul Haq, *The News* (Political Economy), March 15, 2015—weblink:

[http://tns.thenews.com.pk/breaking-debt-prison/#.Vr16GbR94\\_4](http://tns.thenews.com.pk/breaking-debt-prison/#.Vr16GbR94_4)

<sup>viii</sup> Essential Tax reforms, Huzaima Bukhari & Dr. Ikramul Haq, *Business Recorder*, April 10, 2015

<sup>ix</sup> Tax & economic justice, Huzaima Bukhari & Dr. Ikramul Haq, *Business Recorder*, May 8, 2015

<sup>x</sup> What are taxes for? Huzaima Bukhari & Dr. Ikramul Haq, *Business Recorder*, November 6, 2015

<sup>xi</sup> The number of new taxpayers added by the field formations of FBR are pathetically low. The official figures available for the latest year, fiscal year 2022-23 show that new income tax filers were only 1,896,295 and for sales tax just 32,097. The total active taxpayers during the fiscal year 2023-24 were 3,938,502—for further details visit:

<https://download1.fbr.gov.pk/Docs/2023121818121423230Annualreport2022-23published18Dec2023.pdf>

<sup>xii</sup> Flat-rate taxation: Alternate solution—II, Huzaima Bukhari & Dr. Ikramul Haq, *Business Recorder*, November 22, 2015

<sup>xiii</sup> Arthur B. Laffer, *Handbook of Tobacco Taxation: Theory and Practice*, The Laffer Centre at the Pacific Research Institute, 2014.

<sup>xiv</sup> Return to Prosperity, how America can regain its economic superpower status by Arthur B. Laffer and Stephen Moore, Threshold Editions, A Division of Simon & Schuster, Inc. New York, 2010, pg. 170

<sup>xv</sup> Return to Prosperity, how America can regain its economic superpower status by Arthur B. Laffer and Stephen Moore, Threshold Editions, A Division of Simon & Schuster, Inc. New York, 2010, pg. 173

<sup>xvi</sup> Ibid

<sup>xvii</sup> Ibid. Dr. Laffer has made a point by observing: "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" [Page 174].

<sup>xviii</sup> "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" — Return to Prosperity, how America can regain its economic superpower status by Arthur B. Laffer and Stephen Moore, Threshold Editions, A Division of Simon & Schuster, Inc. New York, 2010, pg. 169

<sup>xix</sup> There is a gradual decrease in the number of income tax filers, though over 50 million Pakistanis are paying advance income tax at source. FBR claims that over 300,000 notices have been issued to non-filers (potential taxpayers) but only about 60,000 filed returns with payment of only about Rs. 450 million. No explanation is given by FBR as to why the number of return filers has decreased from 1,443,414 in 2011 to about 900,000 in 2014. There was a time when FBR used to get over nearly two million returns! Out of registered companies of nearly 67,000, only 24,188 filed returns for tax year 2014. For tax year 2013, total number of companies that filed returns was 25,152. Law requires that every company has to file tax return irrespective of whether it is earning any income or not.

<sup>xx</sup> The prevailing myth that our tax base is narrow and only 1% of the population pays income tax is totally baseless—the distinction between

'filers' and 'payers' is ignored, even by those who claim to be experts! The reality is quite the opposite. Over 50 million Pakistanis are subjected to innumerable withholding taxes—both adjustable and non-adjustable. 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.

<sup>xxi</sup> Economic Survey of Pakistan 2014-15, Chapter, Overview of the Economy [Page 4]. FBR even failed to meet this third time revised target. Net collection (provisional) as per FBR's Biannual Review (January-June 2014-15), is Rs.2590 billion. On the contrary, the State Bank of Pakistan in its Annual Report (FY 2015) on the State of Economy released on December 11, 2015, mentions that "within tax revenues, FBR taxes were Rs 2,588.2 billion..." It is a fact that even after imposing additional taxes of Rs. 360 billion, allegedly blocking over Rs. 220 billion taxpayers' refunds and taking advances of many billions, FBR failed to meet the third-time revised target for fiscal year 2014-15 (FY 2015) of Rs. 2605 billion, 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.

<sup>xxii</sup> 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.

<sup>xxiii</sup> NFC: vital issues ignored, Daily Times, November 28, 2009

<sup>xxiv</sup> Federal Budget FY 15: Tale of fiscal stabilisation, Muhammad Sabir, Business Recorder, September 17, 2014

<sup>xxv</sup> Flat-rate taxation: Alternate solution, Business Recorder, November 20 & 22, 2015

<sup>xxvi</sup> 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.

<sup>xxvii</sup> Case for harmonised sales tax, The News, May 28, 2014

<sup>xxviii</sup> FBR's Biannual Review (January-June 2014-15)



<sup>xxxix</sup> Effective rate is the actual rate that yielded the total collection. For details see <http://www.customstoday.com.pk/effective-rate-of-sales-tax-on-60-major-sectors-stands-at-4pc-fbr/>

<sup>xxx</sup> World Bank. *Paying Taxes, the Global Picture* (2012). Presently Pakistan ranked 171 out of 189 countries [2015 survey of World Bank]

<sup>xxxix</sup> A. Agha and J. Haughton. *Public Finance Management*. p.227.

<sup>xxxii</sup> B. Hassan and T. Sarker. *Reformed General Sales tax in Pakistan. International VAT Monitor* (November/December, 2012).

<sup>xxxiii</sup> S. Refaqt. *Redistributive Impact of GST Tax Reform: Pakistan, 1990–2001. The Pakistan Development Review* 44: 4 Part II (Winter 2005) pp. 841–862.

<sup>xxxiv</sup> 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.

<sup>xxxv</sup> 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.

<sup>xxxvi</sup> 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.

<sup>xxxvii</sup> M Ziauddin, TRC Report, Express Tribune, February 19, 2016.

<sup>xxxviii</sup> See detail in Flawed tax reforms agenda, Business Recorder, November 15 & 21, 2019 and 'Raising Rs.8 trillion', Daily Times, November 12, 2017] suggesting how Pakistan can 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 given in our study have been endorsed without acknowledgement. In the above articles, among other things, it has been repeatedly emphasized 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 masse, as elaborated in Flawed tax reforms agenda, Business Recorder, November 15 & 21, 2019.



Towards Broad, Flat, Low-rate and Predictable Taxes The study analyses the structural and operational weaknesses of the existing tax system at federal level and suggests alternate solutions in the following areas that require fundamental reforms. This study argues that 'taxpayers have to deal with multiple tax agencies adding to their cost of doing business' and 'the non-existence of tax-related benefits is the most neglected area of our discourse on reforms'. In this regard, this study discusses the existing four-tier tax appellate system and how it has failed to deliver and what alternate system can be adopted.

*“Huzaima Bukhari and Dr. Ikramul haq have designed a tax reform plan that would dramatically change the structure of taxation in Pakistan by correctly aligning incentives to promote economic growth and voluntary tax compliance. An ideal tax system should consist of the lowest possible tax rate on the broadest possible tax base. Such a system gives people the least incentive to evade, avoid or otherwise not report taxable income. Along with sound money, free trade, spending restraint and minimal regulation, the adoption of these recommendations will launch Pakistan onto a new trajectory of economic growth and prosperity for all. ”*

*-Dr. Arthur B. Laffer  
Father of Supply-Side Economics, Creator of “Laffer Curve”*

*“This book by Huzaima Bukhari and Dr Ikramul Haq, is an outstanding contribution. The Tax Administration Reform (TARP) Project of 2003 and the more recent Pakistan Raises Revenue Project at a cost of hundreds of millions of dollars have not borne any significant fruit so far. Huzaima and Ikram have proposed a simple, growth focussed and broad based tax reform that is more likely to achieve the objectives of a sustained increase in tax revenues together with incentives for economic growth. This work is a great service to the people and government of Pakistan. Huzaima and Ikram 's study because of its rigour, depth and wide scope will prove to be a classic in the field of Tax Reform. ”*

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