**Fundamental tax reforms**

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The Pakistan Tehreek-i-Insaf(PTI) after came into power has failed to fulfil its election promise of rationalisation of the tax system even with $400 million loan from the World Bank, which has been reportedly downgraded “due to slower-than-expected progress”. Voluntary tax compliance cannot be improved unless there is substantial improvement in the efficiency, technical competence, integrity and ability of the tax authorities to relentlessly pursue and punish tax evaders without any political and other interference. The present structure of Federal Board of Revenue (FBR) has failed to achieve these objectives. While there is always talk of “market” wages to officials, nobody has ever emphasised improving the overall working conditions and professional skills of officers and staff. Does it really need enormous money or loan from the World Bank?

The fundamental element of tax reforms is providing a simple and fair tax system that is manned by an efficient and competent administration. Tax administrations, both at federal and provincial levels, lack the requisite level of digitization, professionalism and human skills. Tax reforms do not mean merely altering tax laws or suggesting cosmetic changes here and there. Reforms can be successful only if comprehensive analysis is made of the whole system, that is, tax structure, tax administration, state of economy, taxpayers’ attitude, revenue needs of the country and many other allied aspects like benefits to citizens, as elaborated in ‘Reciprocity of taxes’, Daily Times, April 21, 2019.

The present PTIcoalition government, under the leadership of Imran Khan, earnestly desires optimal tax collection, which is not possible without first establishing an efficient, administrative structure that maintains data of each and every person, natural or juridical.We need to establish an automated and autonomous nationaltax collection agency. FBR and provincial tax agencies lack facilities and proper training to counter massive pilferage at all levels.

The PTI Government must provide a fair and transparent tax system for which model is available in a study, ‘Towards Flat, Low-rate, Broad and Predictable Taxes’, published by PRIME Institute. The PTI Government needs to invest in human capital, and infrastructure to increase productivity. The emphasis should be on inclusive economic growth.

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The following measures/steps are necessary to enforce tax obligations and ensure the citizens get fundamental rights as quid pro quo:

1. All individuals, whatever the level of income may be, should be required to file simple and easy tax return form which should be available in English and Urdu. It will help in facilitating the process of documentation, data base at national level about households and their earning levels. Households earning below Rs 400,000 should be paid Income Support Allowance of 10% of difference of earning and tax payable on minimum threshold(negative income taxation).

2. Individual income tax rate for taxable income should be 10% or 2.5% of net wealth exceeding Rs 10 million on the last day of tax year, whichever is higher. The corporate rate should be 20%. Withholdings of income tax should be on real incomes and not on transactions.

3. All non-filers should be given a chance to whiten all untaxed assets/incomes for any past year, at home or abroad, by paying tax due with no additional tax of penalty latest by June 30, 2021. After the deadline, stringent actions like confiscation and imprisonment should be enforced.

4. Government may offer all persons an opportunity to pay unpaid income tax/sales tax for any previous year under a self-assessment scheme, paying more than 25% tax over the last year, with no audit or inquiry. It would bring much-needed revenues to overcome fiscal deficit. In the next three years’ time (2021 to 2023), while businessmen concentrate on business growth, the government should prepare their tax profiles by data integration. After three years, both would be in a position to determine income tax/sales tax payment on actual basis.

5. Uniform customs duty of 3%with certain exceptions to protect local industries and exporters. TVs, air conditioners, cars and other luxury items (to be identified in consultation with stakeholders), tobacco, liquor should be taxed at a higher rate.

6. Radiographic scanning of all inbound and outbound containers to plug revenue leakages. Stringent measures to counter under-invoicing, misdeclaration etc.

7. For restoring confidence of taxpayers, Taxpayers’ Bill of Rights should be promulgated ensuring the rights of taxpayers, equality of treatment, guarantee privacy and confidentiality of their declarations, right to assistance in tax matters, right of appeal through an independent National Tax Tribunal and quicksettlement through Alternate Dispute Resolution Commission.

8. There is massive sales tax evasion. Even registered persons are not depositing full amount of sales tax. A scheme should be announced entitling a payer of sales tax to get refund of 10% of the amount paid. Individuals and other entities should send invoices to federal treasury, which can authorise and remit refund after verification of genuineness of the invoice (by checking sellers’ registration number). In this way, the government can develop data base about sales of all persons and then cross verify the same with the receipts declared by them in their sales/income tax returns.

9. Presently, refunds of billions are stuck up. Refunds should be issued as expeditiously as demands are collected. There should be mandatory statutory provisions requiring allrefunds to be paid within 60 days of their becoming due. There should be automatic payment of compensation if any refund is issued after 60 days. The officer responsible for incurring compensation should be made liable to pay the amount from his salary.

10. There should be zero sales tax regime for exporters to avoid refund accumulation.

11. Recovery of tax demand should be made only after decision of the Tribunal.

12. For disposingpending cases, details were provided in ‘Unclogging tax appellate system’,Daily Times, October 18, 2020.

In Pakistan, like many other developing countries, one of the biggest problems is a relatively small tax base and the reluctance of ordinary people to file tax returns and thus submit themselves to scrutiny of their affairs by the tax administration. However, once a taxpayer has faith in the effectiveness of legal remedies against an unjust tax levy or unjust action of the taxation authorities, voluntary compliance effectively increases. For a tax collector, an efficient tax judiciary ensures that demands arising out of legitimate tax assessments are not unnecessarily locked up in litigation.

The Customs and Inland Revenue tribunals should be merged into National Tax Tribunal. The first appeal should go to it like the Services Tribunal. There should be provision of intra-tribunal remedy. On question of law, the matter should go directly to Supreme Court by way of leave to appeal. All recruitments for National Tax Tribunal of lawyers and members of professional bodies and tax officials having requisite experience should be by Supreme Court as in the case of judges. Once elevated as members, tax officials to leave FBR for good to ensure impartiality of their conduct. The pay, perquisites and salary structure of Chairman, members and staff of the proposed National Tribunal should be at par with the judges and staff of high courts.

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