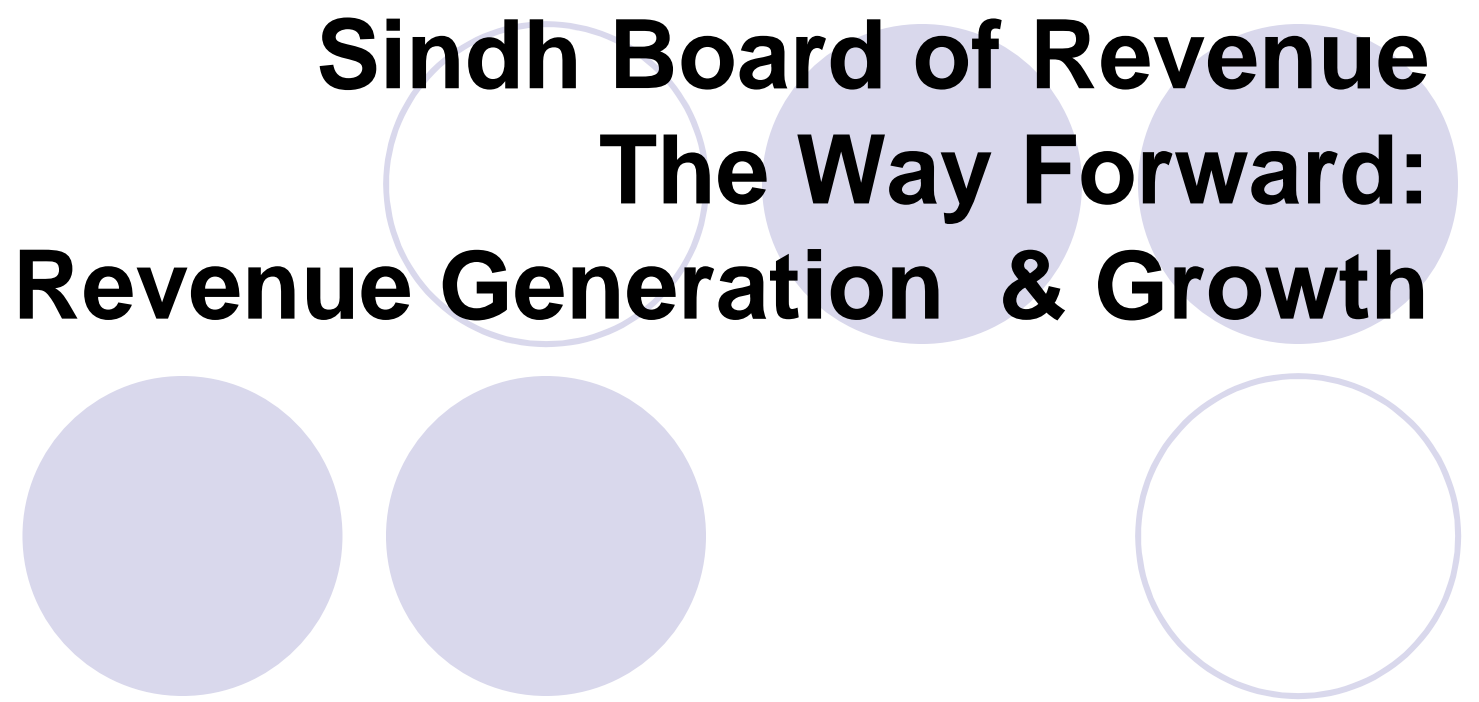


Sindh Board of Revenue The Way Forward: Revenue Generation & Growth

The title is centered and overlaid on a decorative graphic consisting of several circles. Two solid light purple circles are positioned below the title, and two hollow light purple circles are positioned to the right of the title.

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A decorative graphic at the top of the slide consists of two groups of three circles. The first group on the left has a solid light purple circle on the left, a white circle with a light purple outline in the middle, and a solid light purple circle on the right. The second group on the right has a solid light purple circle on the left, a white circle with a light purple outline in the middle, and a solid light purple circle on the right. The text 'TABLE OF CONTENT' is positioned to the left of the first group of circles.

TABLE OF CONTENT

- Federation & Democracy
- Constitutional Framework
- Historical Perspective & Ground Realities
- Decomposed Provincial Revenue Structure
- Documentation/Accounting/Tax Collection
- Way Forward



FEDERATION & DEMOCRACY

- Pakistan is a federation of four provinces. Unlike unitary system, provinces are responsible to provide basic amenities to the common man being education, health, security, infrastructure, irrigation etc.
- However, in financial sense, by way of revenue generation, capabilities and possibilities, we are unitary form of government.
- This is the biggest threat to continuing democratic process in the country. Unless we correct the same, sustainable democracy, the only way of governance, can not survive.



CONSTITUTIONAL FRAMEWORK

- 1973 Constitution, has provided a process for the collection of taxes. Like all other federations, income tax is a federal subject.
- However unlike any other federation like USA, Canada, Australia and India, we are trying to implement VAT in a constitutional framework where taxes on 'Goods' is a federal subject and taxes on 'Services' is a provincial subject and we continue to allow input / output across the board.
- VAT is effectively a tax on unitary system of government like UK and whole of Europe.
- Without compromising on the redistribution of the rights of taxation on consumption, tax on goods and services under the constitution. If Pakistan wants to implement any proper consumption tax then some out of box thinking would have to be made. We do not see that inclination at present.
- Present system is prone to dispute and it retards incremental growth.



HISTORICAL PERSPECTIVE & GROUND REALITIES.

- 1947 had not changed anything for the people living in these areas. There was no structural and financial realignment. However at that time and upto 1949, Sales Tax was a provincial subject.
- Sales Tax on Goods went to Federation for one year in 1949 and then stayed there for the last 64 years.
- When collection of sales tax was not the major revenue spinner, then issues were simpler. Now, when it is the biggest source of revenue some reconsideration has to be made specially in the circumstance where in the present world, distinction between goods and services is fading out.



HISTORICAL PERSPECTIVE & GROUND REALITIES

- On account of their complete dependency and to certain extent complacency, provinces were never geared to arrange their revenue generation system.
- There were effectively very few sources where revenues were related to income or turnover of the businesses undertaken in the provinces. So provincial revenue remain stagnant.
- All these factors lead to complete chaos in the taxation system and we stagnated around over tax to GDP ratio of 10 or less than 10 percent. With provinces sharing less than 1% [effectively 0.25%].

DECOMPOSED PROVINCIAL REVENUE GENERATION STRUCTURE

- At the moment, provincial revenue generation structures are totally decomposed. There are effectively three departments engaged in revenue generation; being (1) **Revenue Boards**, (2) **Excise and Taxation Department** and only in Sindh (3) **Sindh Board of Revenue**. This fragmented structure is outdated and was not designed to cater for the present needs.
- For example, there is an Agriculture Income Tax in the province which is managed by Board of Revenue, however it is almost certain that no body has ever filed a return of income on net income basis. Is it not a joke in the present time in a province where major source of income for the majority of population is agricultural activity. The problem does not lie in the taxpayer. It lies within the tax collector. This system will not work.
- Almost same is the structural position of the Excise Department. Excise is fundamentally a tax to curb consumption. Are we correct in saying that excise department should collect tax on motor vehicle etc. These are just examples of distortions. The bottom line is that provinces are not geared for self revenue generation.
- Sindh Revenue Board is a good beginning; let us concentrate to make it vibrant and compatible to present needs.

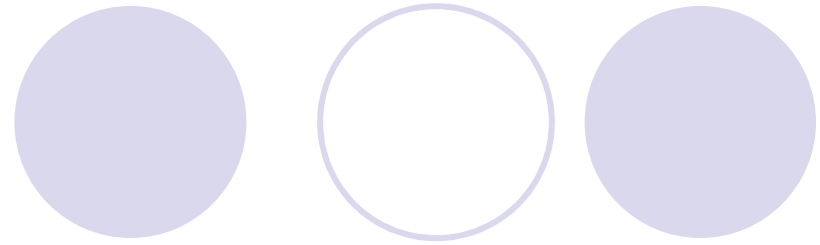


DOCUMENTATION/ ACCOUNTING / TAX COLLECTION

- Over the period of time, a misconception has emerged in Pakistan that tax collection is a subject separate from documentation. This is a completely wrong notion.
- Tax collection is the second and natural stage of documentation and accounting. In this process, the tax collector has effectively no role.
- In the modern world there is effectively no tax collector / tax office. At the maximum there can be a tax 'auditor' to ensure that documentation and accounting has been correctly done. If so, taxes are the natural result. That auditor is not the tax collector.
- In this country, very bad experiences have been encountered by promoting a culture of non-documentation. All these measures were policy corruptions, which were undertaken under the Doctrine of Financial Necessity. It is an advice to the SRB to never get into this trap.



WAY FORWARD



Procedural:

- Complete Documentation;
- Complete Automation;
- No Personal Contact;
- Manage Taxation as a subject of economics not as a matter of law;
- Taxing Few but completely.



WAY FORWARD

- Wholesale and Retail Sales Tax, even on goods, to be devolved to SRB and then to Local Bodies.
- Agricultural Income Tax to be placed to SRB or FBR;
- Excise Department to devolve taxes based on turnover and income to SRB;
- Settle the mechanism of taxation of services with the Federal Government and look for the future if input output system continues.