

Wrapping up Speech of Dr. Kaiser Bengali for Session II During the Concluding Session

Honorable Chief Minister Syed Qaim Ali Shah Sahib, Nazar Mahar Sahib, Speakers, Ladies and Gentlemen.

Nazar Mahar Sahib is a very modest person, he has put credit of entire SRB on geography. Certainly geography is important because the tax base is present here because of the port being here. But the work that the SRB has done under the leadership of Mr. Nazar Mahar is laudable and what we have been listening since morning is that, speaker after speaker spoke many positive things about SRB but what was most salient and prominent was that everyone said that not a single instance of coercion or corruption has been reported for this institution.

I fully second what Mr. Nazar Mahar has said that success of SRB would never have been possible if the political support of the Chief Minister for SRB had not been there. If I go a little into the past then SRB is outcome of the NFC award. The Chief Minister was a member of the NFC as the portfolio of Finance was also with the Chief Minister Sahib and I was also the member of NFC. For five months intensive deliberations and discussions were done in meetings in which I was possible to technically argue matters because of my technical competence but often got stuck up on political points, it was on such issues the intervention of the Chief Minister used to be very strategic because the Chief Minister had also been a member of the 1st NFC which had been held after the 1973 constitution so he had a historical perspective which was very useful.

I would like to talk about a specific instance, the first and second meetings of the NFC were held in Islamabad followed by meetings in provincial capitals, Peshawar, Quetta, Karachi and the last was held in Lahore where we reached an agreement. The media had been called 1800 hours and till 2330 hours we could not reach an agreement and the agreement could not be on five or six words. It was Sindh' stand that sales tax on services would be collected by the provinces but the rest of the provinces were not agreeing to this. They had agreed on the fact that it was the right of the provinces to the sales tax on services but were not ready to agree that the provinces could collect this. It was here the legal and political knowledge of Shah Sahib came to great use, he was the only person who saying no at that moment, while the rest of the people were on the other side. It was night time and we were all present in a room, the four Chief Ministers, their rest of the NFC members and their Finance Secretaries, we were almost 20 people in the room and here was one man who said I will not sign this unless it is written that the provinces can collect and finally he won. So we have Chief Ministers who are called strong men, but to me the strong man is Chief Minister Syed Qaim Ali Shah because I have seen him at very close quarters and seen him alone in a room how he stands up.

He then created SRB against a lot of opposition, you just imagine there were other departments for collecting taxes in Sindh and they all wanted that the responsibility for collection of sales tax on services should be entrusted to them, there were powerful sources, there was a lot of pressure and I was in the Government at that time I was an Advisor to Shah Sahib so I knew what kind of pressure was being applied and he withstood that pressure and he created SRB.

He even withstood the pressure to appoint political favorites and he appointed professional staff and like Nazar Mahar Sahib has said that after appointment there was zero interference in the work of SRB. I feel that without Shah Sahib's support SRB could never have been successful. Appointment of leadership in SRB, providing it political support without any interference in day to day affairs, not to send favorites for appointment, he never sent even a single person. This is the reason for success, this shows the path and proves that we are capable of correcting over governance and we can properly run this country, an example has been created here.

I would like to talk here about sales tax on services, on 30th December 2009 the NFC was signed in Gawadar, it was historical moment and in May 2010 the Presidential order was issued giving the award a legal status. From 01st July 2010 we could have started collecting sales tax on services, we had made the legislation, everything was ready but the rest of the Provinces had made some objections and the President instructed that because of the Government's reconciliation policy Sindh unilaterally should not take any action and we should talk to them.

Discussions were held and these continued for the whole year and I was part of the negotiations. Discussions were held on trivial issues, finally an agreement was signed in October by the Federal Government and all the four provinces and after that Sindh legislated and enacted in Sindh Sales Tax on Services Act, SRB was established and collection of sales tax on services started. This took almost the whole year and we were holding discussion on sales tax on services, on its modalities and details, I have come to the conclusion about which mention was also made by Mr. Shabbar Zaidi.

I as an Economist and as a tax person, have taught tax policy, public finance, theory and practice for many years and support this conclusion of Mr. Shabar Zaidi that this entire system of input, output VAT and refunds is not so workable in the conditions that prevail. I wouldn't say that this should be abolished; maybe this is not in my competence to say this. One thing is very clear that in a federal country the VAT system does not run properly except for one or two rare examples but they have widely modified the VAT. In our country where there are so many federal relations, centre and inter-province relations, political issues remain unresolved. 18th amendment is a huge success and a huge achievement for the present government, for the President, for the Prime Minister, for the Assembly but there are still a lot of issues which remain unsolved. In such a situation to raise another contentious issue add it on the agenda is not advisable. There will always remain some issue between the centre and the provinces, and

between the provinces themselves that this is our share which Sindh is collecting, while Sindh would say that it is our share which Punjab is collecting. The biggest issue of RGST is that constitutionally sales tax on services is a provincial issue, while sales tax on goods is a federal tax, while VAT conceptually is an integrated tax. We managed to explain this with great difficulty, there used to be a Consultant in FBR who was previously with IMF, we held detailed negotiations with him we used to draw up equations and solve them, discuss taxation mathematics. We proved it to him that collection could be separated but we did accept the input and output adjustment had to be integrated. The solution we came out with was that we will make collection separately and FBR would have access to all the data and they could carry out the input and output adjustments. The services on which the FBR was providing refunds would be reimbursed by the Sindh Government to FBR and this is part of the agreement. But even then despite the agreement, I think we will still have issues everyday and a situation might be created in Islamabad especially if Pakistan has to go back to IMF which seems possible then IMF would say that Pakistan committed to an integrated VAT and keeping IMF in view Sindh would be asked to return back its right to collect sales tax on services. I am afraid this might happen very soon and surely Sindh will not accept this because it would be an attack on its fiscal autonomy.

My proposal while furthering what Mr. Shabbar Zaidi said that VAT or RGST should be bifurcated. The RGST regime which is VAT based input and output adjustments should only be limited to goods, while the sales tax on services should not be GST on services but should rather be sales tax on services and should not be part of input and output adjustment and there should be no refunds. If this is done, then we would have to change the tax rate and reduce it. If 16% tax is being levied on goods and 16% is also being levied on services which do not have a refund then cost of doing business would increase, the cost of production would increase, the cost of taxation would increase and this is not desirable. The purpose of taxation should not be extortion; it should be to promote economic activity, like somebody said in the morning that we should eat eggs and not the hen that lays eggs because later we would not even get eggs. The proposal is that the tax rate on good should be reduced let us say notionally and 5% on services which should not be refundable, then those businesses which also have a both goods and services input, then the maximum taxation that would be levied on them would be 15%. When we were doing the exercise for the whole year and negotiating on GST on services, we had taken data from FBR and analyzed it and found the share of services returns that were being filed by companies and found that except for one service the remaining had a very low share of services component, 1 %, half percent e.g. the expenditure of telephone is less than 1% for the Corporation of their total cost. So even if the sales tax on services is made non-refundable then it would not be such a high burden provided their taxation rate is lowered.

One service which forms a very big component for some products, for consumer products is advertising e.g. for a company selling toothpaste advertising is a very large component of their input cost. What we can do is that we give advertising to FBR for which we already have an agreement and we decide upon a sharing formula for tax revenue from advertising but for the rest we do not do this; even the financial cost of the companies is not very large as it is less than 5%. This is a proposal which I think we must put forward.

When it is said that we are compromising the integrity of RGST and VAT then it has already been compromised when we gave concessions to the textile industry. The textile industry has effectively been taken out of the RGST mode which is the biggest industrial and export sector of Pakistan is textile as it represents two thirds of the exports so nobody should give us the argument that we are compromising the RGST as it is already compromised. We are saying separate goods and services, keep the complete input adjustment process on goods, and keep the services away from its ambit, let it be with the provinces and reduce the tax rate for both goods and services, the tax rates for services should be half of the goods so that the cost of production does not increase. There are two sectors where the tax rate does not need to be reduced these are telecommunication and financial transactions, these are high value high profit sectors and they must continue to be taxed at the same rate as today. Initially there would be a decline in the short run in FBR revenues and in SRB revenues but it would short term, when the economy gets a boost, the industry gets a boost especially the small business which are unable to manage the RGST because keeping the accounts and managing the RGST means that you have to hire an accountant. There are many businesses which cannot afford to hire a qualified accountant then the problems and delays faced in getting refunds are also not bearable by them. The community to which I belong have a lot of business men both in the community and my family they say the tax that we pay includes the input cost and we do not expect that we will get a refund for it, if we get it then it will be a bonus for us but the tax that we pay we count it as a cost of production and add it to the price. Now when you do that you raise the price and you shrink your market and we are hurting our economy by doing this. I think we need to simplify the RGST system by separating goods and services and adhere to what the constitution is saying.

All this drama that is currently going in Islamabad, Memogate, NRO but the things that I hear in private meetings in Islamabad and Lahore is that there is a big lobby which says the 18th amendment is the biggest blunder of Pakistan after 1971 and they have to be reversed. I think we should all guard against that, unless we do not remain alert and guard whatever we have got will be taken back. But like what Nazar Mahar Sahib has said our opponents are not only out of Sindh but are also present in Sindh. There are inter-departmental rivalries there some sections who do not want to see the success of Shah Sahib so they will try to sabotage SRB. They used to say earlier on and even during the NFC that Sindh does not have the capacity but

Sindh has proved its capacity. They will still try to sabotage things and would say that we had said in the past that the capacity is not there. So I will beseech all of you since you are the stakeholders if you see benefits in SRB, if you think SRB needs to be protected and supported please do not remain silent when something happens. Thank you.