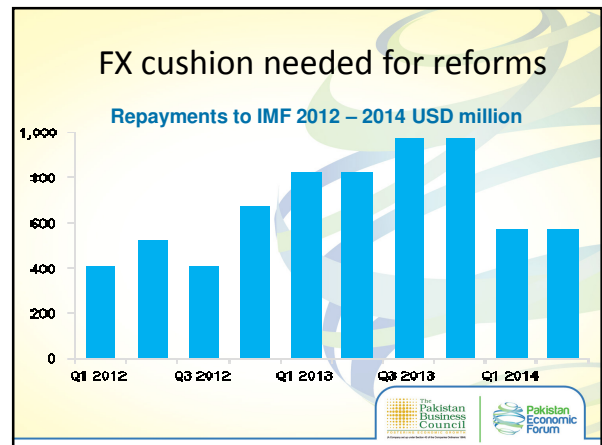
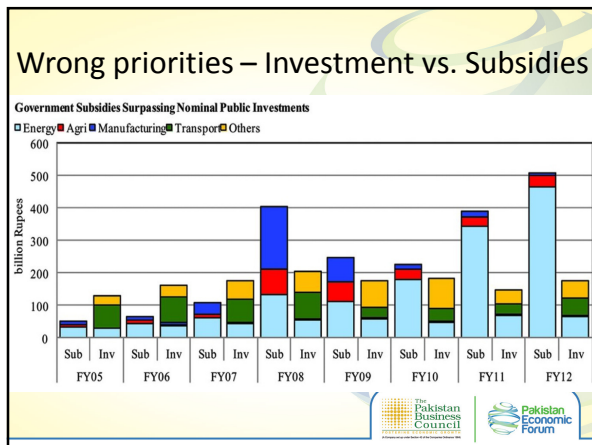
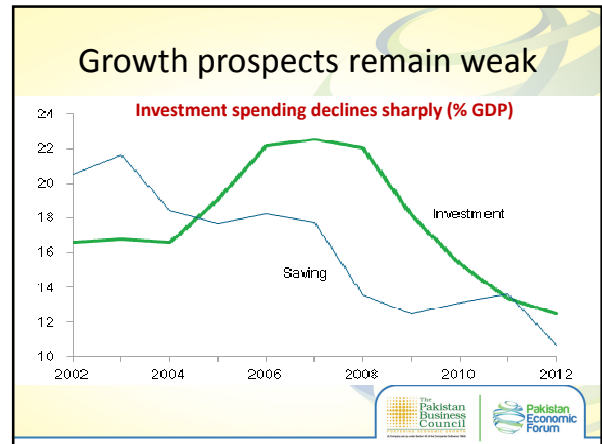
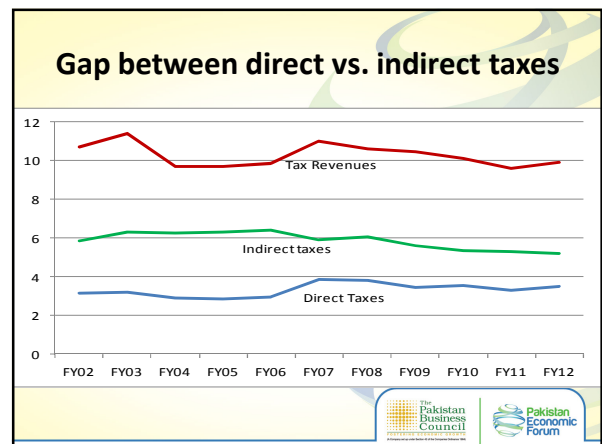
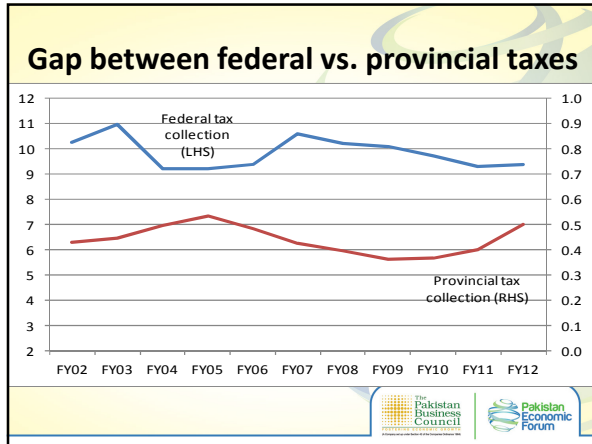


Stronger foundations for sustained growth



- ### Path to Macroeconomic stability
- A). Tax policy reforms
 - B). Reduce expenditures by reducing losses of PSEs and containing power sector subsidies
 - C). Foster better Debt management capacity
 - D). Greater responsibility to be taken by Provincial governments vis a vis own Tax revenue potential.





Tax reforms

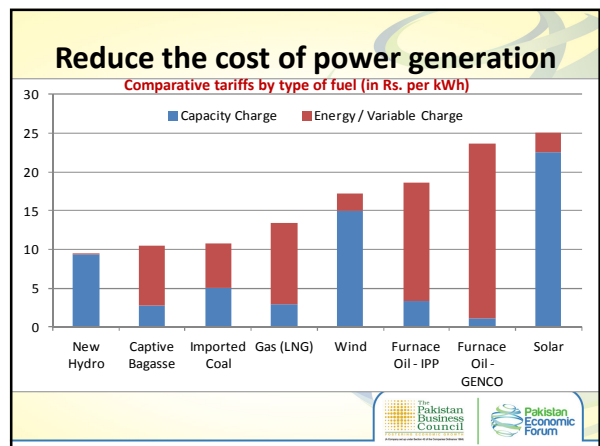
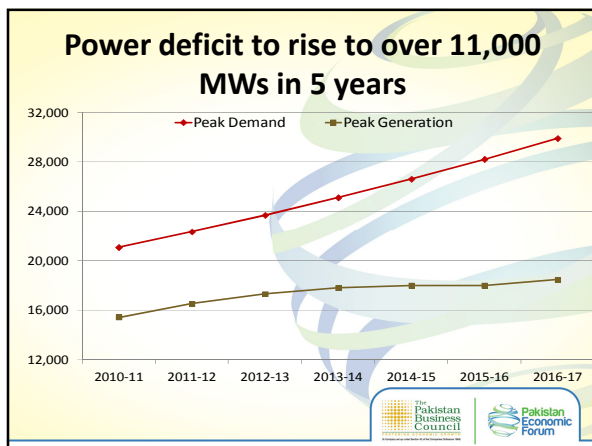
Area of Reforms	Identify problem	Actions	Agency
Power to issue SROs	Indiscriminate use of SROs results in significant revenue loss	SRO power to be limited below a certain defined threshold, only Economic Coordination Committee (ECC) should have authority to approve SROs above threshold	ECC, FBR
Federal Tax Ombudsman (FTO)	Delays and lengthy appeals process adds to cost of doing business	Adopt 'Bill of Taxpayer Rights' to increase transparency of FBR, authority for appeals should be the courts and not the President	FBR, Parliament
Presumptive Tax regimes phased out	Under reporting of tax liabilities	Unwind all Presumptive Tax regimes over 3 years, move to a regime of determination of tax liability after filing of returns	FBR, Parliament

Tax reforms

Area of Reforms	Identify problem	Actions	Agency
VAT regime	Significant revenue loss due to underreporting - WB estimates 4% of GDP	Introduce a full-fledged VAT and / or eliminate exemptions in the GST	FBR, Parliament
Strengthening enforcement	Substantial amount collected under GST, WT but not deposited in the Treasury	Strengthen enforcement of Withholding Tax, GST through audits. Better enforcement for large WT agents (PIA et al, banks, utilities, telcos etc) can generate a significant amount with relatively little effort.	FBR
Refunds and under-invoicing/mis-declaration	Substantial leakage in tax revenue	Strengthen taxpayer audit function and use third-party developed automation solutions to reduce leakage. universal self-assessment scheme (USAS) minus the audits was not successful, and needs to be reversed to reinstitute tax audits.	FBR


Tax reforms

Area of Reforms	Identify problem	Actions	Agency
End to permanent 'whitening' schemes	Section 111(4) of the Income Tax Ordinance gives blank cover to money remitted to Pakistan	Decларation of income compulsory for money remitted to Pakistan	FBR, Parliament
End to Tax Amnesty schemes	Introduces "moral hazard" and possible incentives to continue evading	FBR has identified over 3.2 million potential taxpayers by "querying" the NADRA database. Even if half of those identified are tax evaders, and if a demand of just Rs 100,000 is generated for each, it FBR, can net an additional Rs 160 billion each year in income tax. (The demonstration effect will generate more). Direct action here would be much preferable to an amnesty.	Parliament




Energy reforms – reduce costs

Area of Reforms	Identify problem	Actions	Agency
Gas allocation	Reduce cost of power generation	Additional gas to 4 gas based IPPs (@38MMCFD PER PLANT = 152 MMCFD) will save Rs. 138 billion in HSD bill	ECC, MOPNR, IPPs
Coal conversion	Reduce cost of power generation	Conversion of GENCO, IPP power plants into coal. Cheaper generation of power can save almost \$ 2 bn annually in the import bill	GENCO, MOWP
Gas & Electricity pricing	Eliminate subsidies	Empower NEPRA to notify all determined tariffs to rationalize the gas pricing and gradually eliminate subsidies	NEPRA, Parliament



Energy reforms – reduce costs

Area of Reforms	Identify problem	Actions	Agency
Reduce line losses	Eliminate subsidies	Provincialize the DISCOs to enable their efficient recovery and merge their line losses.	Parliament
Efficiency gains	Increase power generation	Fuel to be diverted from power plants having less than 35% efficiency. Moving to efficient power plants increases generation by 1.5 times.	GENCO, MOWP
Rehabilitation of GENCOs	Increase power generation	Rehabilitation of public sector power plants Increase of 10% efficiency increases power generation by 20%.	GENCO, MOWP



Harnessing unmanageable levels of growth in Domestic debt

Recommendations:

1. A Debt Management Office that is properly empowered to structure, distribute, and manage the market for, all Government debt, should be established immediately. The present Debt Coordination function at the Ministry of Finance lacks authority, capacity, and market know-how to perform these functions.



Harnessing unmanageable levels of growth in Domestic debt

Recommendations:


2. Ideally this office should be located within the SBP in order to have direct access to market information and trends, to better manage long-term costs and liquidity.
3. The Ministry of Finance should re-define its ‘cap’ for Debt, using both Fiscal Revenues, and Govt share of total Bank credit as fundamental yardsticks.



Provinces need to generate resources

Recommendations:

1. For coordination of the fiscal framework between the Centre and the provinces, and to ensure adequate tax effort by the provinces, a permanent Tax Reforms Commission should be established. Headed by the Prime Minister, it should include the chief ministers and respective finance ministers, aided by external experts. Issues such as the implementation of a nation-wide VAT to be discussed by the Commission, for recommendation/approval by the Council of Common Interests (CCI).



Provinces need to generate resources

Recommendations:

2. PEPCO receivables that remain outstanding due to non payment by provincial government offices and agencies is a major hurdle towards improving cash flow of the energy sector. Our recommendation is that the federal government must adjust these receivables from the share of provinces in the federal divisible tax pool. Hence, the share of provinces from the federal divisible pool is adjusted net of these outstanding PEPCO receivables.



Other key recommendations

Industrial Restructuring

- Business laws including the Companies' Ordinance, laws governing mergers and acquisitions and conglomerates need to be revised and modernized.
- Much of the spadework on Bankruptcy laws, as Corporate Rehabilitation Act has been done. These need to be enacted soon.
- Accountability of audit firms for professional misconduct can be accomplished by improved regulatory and enforcement mechanisms by ICAP.



Other key recommendations

Public Sector Enterprises (PSEs)

- The direct role of administrative Ministries in controlling PSEs should be replaced by a single Government holding company such as Khazana in Malaysia. Independent boards of Directors should be formed and empowered to govern these public enterprises with clear mandates, targets and accountability. PSEs must improve or be privatized / closed.
- Have public-private partnerships for projects falling under Federal and Provincial PSDPs.

