The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

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Mr. Malik Amjed Zubair Tiwana
Chairman
Federal Board of Revenue
Islamabad

Dear Mr. Tiwana,

Broadening of the Tax Base

The Pakistan Business Council (PBC) will shortly be presenting its annual proposals for the forthcoming federal budget. In the meantime, given the urgency and importance of broadening the tax base, attached are our proposals for your consideration.

Yours sincerely,

Ehsan Malik

cc: Mr. Muhammad Aurangzeb, Federal Minister for Finance and Revenue

PAKISTAN BUSINESS COUNCIL

Proposals to Broaden the Tax Base

S. No.	Objective	Issue	Recommendation
1.	To discourage parking of black money in real estate.	Significant difference between market and FBR values of immovable properties.	FBR values should reflect the market value, of which Zameen.Com can be one of the sources.
2.	To deter under-declaration of transaction values resulting in perpetuation of the informal economy chain.	Powers under Section 230F, which entitle the FBR to acquire a property within six months of a transaction to pay twice the declared value are not being utilized.	Section 230F should be used to deter under declaration of transaction values.
3.	To encourage retail customers to report invoices issued without the FBR generated QR code.	FBR has discontinued the POS prize scheme even though a sum of Rs. 1 per invoice is still being collected from retail customers. At the time when this scheme was in place, many retailers were forced to issue QR code based sales tax invoices due to pressure from customers as well as fear of online complaint to FBR by customers.	POS prize scheme should be relaunched.
4.	To encourage transactional transparency through POS integration of retailers.	Retailers are reluctant to sign up for POS integration because of fear of losing customers to outlets that are not integrated. A high 18% standard GST rate provides ample room for evasion. Even textiles and leather goods for which a reduced 15% GST rate applies, there is sufficient incentive for non-POS integrated outlets to evade.	It is proposed that the GST differential be increased to 9% for **all** retailers with POS connectivity so that sales tax rate on POS integrated retailers be 9%. Furthermore, new retailers who integrate through POS be provided a higher incentive of 10% reduction i.e. their GST rate should be 8% for the first three years. These reduced rates can be revised once substantial number of retailers integrate through POS.
4.	To identify potential tax payers and make it expensive for them to remain outside the tax base	Of the over 4 Mn industrial & commercial utility connections, only 200,000 are registered for GST. As of March 2022, there are over 66 Mn registered bank accounts, but this does not correlate with the number of tax payers.	FBR should be empowered to coordinate with utility companies, banks, registrar of properties etc., to identify tax evaders. NADRA and other databases/sources of information should be mined and AI deployed to expand the tax net.

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			The same rate of advance tax is applicable to filers and non-filers - 5% for industrial and 12% for commercial connections. The rates of advance tax for those industrial and commercial customers who are not registered for sales tax should be increased to 20%. The same differential should apply to Gas bills. Advance tax @7.5% is collected from residential consumers not on the active tax payers list if the monthly bill is over Rs. 25,000. It is suggested that for monthly residential bills of over Rs. 100,000 for connections in the name of occupants not on the active tax payers list, advance tax be collected at a rate of 30%. FBR should not become content with raising revenue through advance tax from non-filers. It should be set a target to convert these to filers.
5.	To collect due share of tax from those outside/ not in the tax net.	Section 7E (tax on deemed rental income on land and property) has been imposed, but surprisingly the same is being collected from tax filers only, whereas non-filers are required to pay this tax only when they dispose off their property, and that too just for a single year.	Rules need to be framed by FBR to make it clear that Section 7E would also apply to non-filers at the same rate as filers for each year until the date of disposal of property. This should be collected by the land registration authorities before proceeding with transfer of title. Additionally, a delayed payment penalty should be levied for the period from when the tax would have become payable had the owner been a tax filer to the date when it was collected by the land registration authorities upon sale of the property.

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6.	To broaden the tax base and encourage formalization through documentation of economy.	Majority of retailers / wholesalers /street vendors do not accept payment other than in cash.	Raast P2M should be rolled out to emulate India's Unified Payments Interface (UPI) allowing users to make instant payments directly from their bank accounts. Similarly, use of digital wallets and QR codes should be encouraged. Use of debit and credit cards should be incentivized through lower GST, as for example, 5% GST as when used in restaurants in Punjab.
7.	To make it attractive to join the tax base and easier to file tax returns	Most first-time tax filers are micro, small or medium sized enterprises which lack resources to comply with complex tax procedures. A major reason for their reluctance to join the tax net is fear of investigations about the past. Harassment of existing tax payers does not serve as a good model for those outside the tax net.	Tax revenue from new tax payers should be the primary target of FBR. Tax returns and processes should be simplified and digitized. Personal interface between tax payers and tax officers should be minimized. Without some sort of assurance of protection from investigations about the past, it is not likely that many MSMEs will join the tax base.
8.	To raise provincial revenue from tax on agriculture and to formalize wealth and income of agriculturalists	Provincial agriculture tax is effectively a tax on land and not on income. Provincial governments do not revise the tax rates to reflect changes in income. If properly imposed, tax on income from agriculture of large farmers would generate significantly higher revenue. A large part of the black economy is funded from what is described as agriculture income.	Provincial tax rates on basis of agriculture land area must be revisited to reflect changes in the income; Even though agriculture income is not subject to federal income tax, income tax return and wealth statement must be made mandatory for all agriculturists with large land holding. This will create transparency and prevent build-up of wealth in the undocumented economy.

27TH March 2024