

SINDH TAX REVENUE MOBILIZATION PLAN (STRMP)

2014-2019

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Abbreviations and Acronyms

BOR	Board of Revenue
CRG	Core Reforms Group
CVT	Capital Value Tax
ET&N	Excise, Taxation and Narcotics Department
FBR	Federal Board of Revenue
FD	Finance Department
FY	Financial Year
GDP	Gross Domestic Product
GIS	Geographic Information System
GoS	Government of Sindh
GST	General Sales Tax
ID	Identification Number
IRG	Institutional Reform Group
IT	Information Technology
LARMIS	Land Administration and Revenue Management Information System
M&E	Monitoring and Evaluation
OLAP	Online Analytical Processing
ORG	Operational Reforms Group
OSR	Own Source Revenue
PC-1	Planning Commission Form 1
PKR	Pakistan Rupee
POS	Point of Sales
RCA	Revenue Collecting Agency
SRB	Sindh Revenue Board
SRG	Strategic Reforms Group
TRU	Tax Reform Unit
UIPT	Urban Immoveable Property Tax

Executive Summary

1. The Government of Sindh (GoS) attaches great importance to the pursuit of development for the people of Sindh. It aims to continue with its programs of investment in human capacity and public infrastructure for improved economic growth and human development. Public revenue is essential to continue with these programs. There is a recognition that additional revenue to meet developmental needs will only accrue from own source taxation.
2. In light of this, the Finance Department (FD) has led and managed a process for development of a tax revenue mobilization plan. The Sindh Tax Revenue Mobilization Plan (STRMP) has been formulated to undertake wide-ranging tax reforms in the province, consolidating and deepening isolated reform initiatives of GoS. It is designed as a set of feasible actions to generate higher revenues for the GoS while lowering the costs of compliance for taxpayers and enhancing equity and efficiency of taxation. The tax receipts are expected to increase from the current Rs. 91.37 billion to Rs. 200 billion in next three years after the implementation of STRMP.
3. In the last eight years, Sindh has struggled to generate sufficient revenue to meet investment requirements in line with its development objectives. Tax revenue mobilization has been attenuated by lack of policy attention and weakening tax administration in Sindh. The composition of own source revenue (OSR) in Sindh did not change much between 2005 and 2009. However, in wake of the 7th National Finance Commission (NFC) Award¹, collection of sales tax on services at the provincial level has substantially increased tax revenue as share of OSR from the previous average of 55 to 74 percent, with further increases in the following two years. This augurs well for revenue generation in Sindh as it indicates that the tax revenue component of OSR, which is more amenable to policy and administration interventions, is likely to serve as the mainstay for revenue generation in the province.
4. The FD has led and managed the design and development of this plan through consultation with a variety of stakeholders. It has been prepared under the leadership of a policy level Strategic Reforms Group (SRG), a senior level Core Reforms Group (CRG), and supported by four Operational Reforms Groups (ORGs) which align with the four government agencies, namely, the FD, Sindh Revenue Board (SRB), Board of Revenue (BOR) and Excise, Taxation and Narcotics Department (ET&N).²
5. **STRMP Objectives.** The plan comprises a set of activities to deliver results that cover a wide range of cross-cutting tax policy and tax administration issues including tax simplification, modernization of tax administration and taxpayer facilitation. The STRMP will be implemented in pursuit of the following objectives:

¹ The 7th NFC Award 2009 accepted the claim of Sindh Government's that provinces may collect sales tax on services if they so desire.

² The process for formulating the STRMP is discussed in more detail in Annex 1 and the composition of CRG, ORGs and SRG is provided in Annex 2.

- a. Increase own source revenues, thereby enabling higher investments in development programs;
 - b. Reduce administration and compliance costs;
 - c. Facilitate taxpayers to enhance voluntary compliance; and
 - d. Improve the efficiency and equity of provincial taxation.
6. **Provincial Tax Administration.** The provincial government has 15 taxes and other minor levies within its mandate, which are collected by three independent tax collecting agencies: ET&N, SRB, and BOR. There are more than five million taxpayers in these categories. The following taxes are being levied and collected:
- a. ET&N: (1) property tax; (2) professional tax; (3) infrastructure development cess; (4) motor vehicle tax; (5) excise duty; (6) cotton fee; and (7) entertainment duty.
 - b. BOR: (1) registration fee; (2) stamp duty; (3) capital value tax; (4) agricultural income tax; and (5) land revenue.
 - c. SRB³: (1) sales tax on services
 - d. In addition, electricity duty is also collected by GoS under the Sindh Finance Act, 1972 (read with West Pakistan Finance Act, 1964).
7. Tax revenue collection in the province of Sindh is concentrated in a few taxes. Almost 99 percent of own source revenue comes from nine of the fifteen taxes which includes tax on services (49 percent), infrastructure cess; (27 percent), transfer of property taxes (12 percent) which include stamp duty, registration fee and capital value tax, and property tax (less than 2 percent). The remaining six taxes, which contribute less than 1 percent to total revenue, should be reviewed for simplification in order to reduce compliance costs in Sindh.
8. **Tax Policy and Management.** The FD acts as a coordinating and facilitating organization to the three tax collecting agencies, in addition to its overall mandate to prepare the provincial budget, plan resource mobilization, analyze and set tax policy, and exercise control over the expenses of the GoS.
9. **Key Reform Components.** Considering the importance of revenue performance for development policy in Sindh, the STRMP contains the following four areas:
- a. Institutionalizing evidence-based tax policy and administration and coordination mechanism: The FD has a formal role under the Sindh Rules of Business, 1986 to provide advice to the provincial government on expenditure and revenue policies in the province. The development of well-informed and evidence-based initiatives for tax revenue mobilization requires institutionalization of capacity for tax analysis, review of tax gaps,

³ SRB was created in 2010 after the constitutional clarification of assignment of sales tax on services to the province. In FY 2009-2010 sales tax on services amounting to PKR 7 billion was collected by the Federal Board of Revenue (FBR) on behalf of Sindh province. Since the delegation of power to the province, the Sindh Revenue Board has been able to increase collection of sales tax on services to PKR 24 billion in the second year and to PKR 34 billion in the third year. SRB envisages increasing its tax collection to PKR 100 billion by 2016-17.

study of administrative efficiency, identification of untapped revenue potential, and enhanced coordination across the three tax entities. To lead these efforts, the Tax Reforms Unit (TRU) will be created in the FD for tax policy research and analysis. The TRU will bring in expertise from the academia and other local as well as international specialist institutions to work on analysis on a continual basis. This institutional arrangement, which will replace the current practice, will set performance targets as well as incremental revenue targets for the three tax agencies that are based on analytic foundations.

Furthermore, presently no system exists for structured communication among the three tax collecting agencies and federal and provincial governments, and with taxpayers. The FD, through the mechanism of the CRG, will play a more proactive role to: (i) coordinate tax policy across the three entities, monitor realization of policy objectives, facilitate knowledge sharing, and lead opportunities for integration and synergy; (ii) coordinate efficient and robust tax collection mechanisms/systems.

- b. Institutionalizing IT-based business processes for efficient tax administration. Building on ongoing GoS initiatives for introducing IT in tax administration, key business processes of sales tax on services, Urban Immovable Property Tax and fee/duty/tax on transfer of property will be re-conceptualized and re-engineered to gain maximum revenue productivity. Initial steps will involve formulation of a coherent IT strategy, establishment of IT governance protocols and creation and execution of an architectural vision in which IT Strategy is firmly interwoven into the institutional development of tax agencies spanning assessment, collection, audit, appeals and integrity management. Audit and risk management processes will be strengthened. In the short run, the initiatives will focus on: automation of record keeping and sales transactions of businesses in the unorganized sector such as restaurants, beauty salons, and other small sized service providers; upgrading the Urban Property Tax management system; creation of an operational data store and common provincial tax portal to broaden and deepen the tax base; creation of a system for accurate revenue reporting and reconciliation; and development of Model Service Centres for Citizens for tax collection and registration at three locations. In the medium term, automation will be expanded for sales tax on services, with emphasis on business intelligence, audit systems, risk analysis and e-payments and e-refunds. For the property tax, expansion will move to include all 22 zones in Karachi and the remaining cities of Sindh. Under BOR, expansion of Model Services Centres for tax collection, registration and record of rights will be carried out to all districts of Sindh. Reform of the registration fee and stamp duty will be carried out, including simplification of the tax structure as well as institution of an IT-based system for collection, linked with taxes on transfer of property and land and property records.
- c. Enhancing tax facilitation and improving of taxpayer education to increase voluntary compliance. In order to enhance voluntary compliance, a number of actions will be undertaken. First, tax compliance costs will be lowered by ensuring easy e-filing options through business process re-engineering in all the taxes. Second, taxpayer service plans and education programs will be prepared. To do this, studies will be carried out to identify factors which can be employed to increase tax morale in the province. Specific options for lowering compliance costs and improving taxpayer services will be targeted

on sales tax on services, property tax and fee/duty/tax on property. Third, taxpayer assistance centers will be established to implement and refine facilitation mechanisms. These pilots will be used to further develop options for roll-out of facilitation services across the province.

- d. Generating a policy dialogue to create and sustain impetus for tax reforms seeking higher revenue collections, as well as efficiency and equity in taxation. Tax reforms have been slow to produce results due to lack of policy options grounded in the local context and absence of analytic foundations to perceptions of hurdles. A number of areas in tax policy and tax administration hold promise for substantial revenue gains. Simplification of the tax regime, exploration of avenues to reduce tax administration costs, ways to enhance tax morale, tax incidence analysis and measures to enhance efficiency and equity of taxes, are key areas where analytic work will contribute to the emergence of a well-informed policy dialogue. In particular, analyses of tax incidence, vertical equity in taxes, tax gaps under current policy and taxpayer behaviour, will provide feasible options to reform tax policy and strengthen tax administration in Sindh. Such analyses will guide efforts to widen the base of sales tax on services, highlighting the efficiency and equity implications of these initiatives.

10. Implementation Arrangements

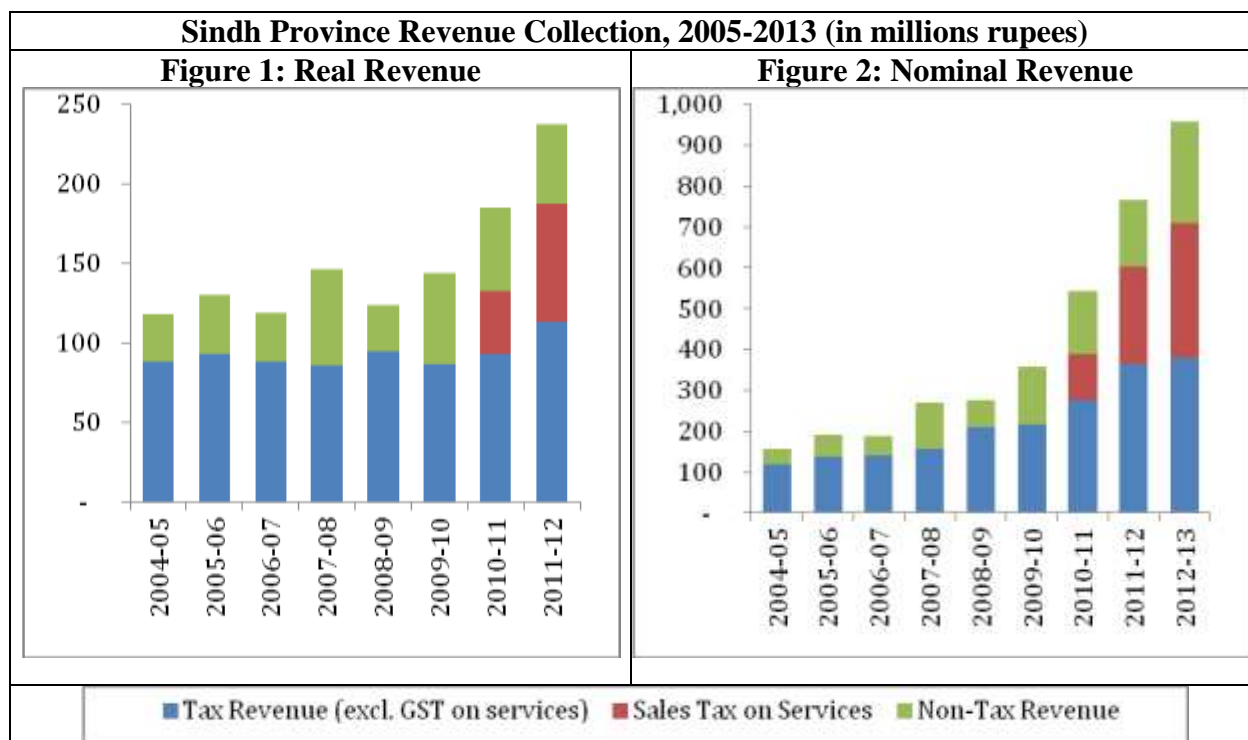
- a. SRG and CRG will provide leadership, technical support and management decisions for implementation of the STRMP. Existing institutional relationships and hierarchies will be used to support the creation of workable arrangements which can facilitate a dialogue in support of reform as well as provide timely decisions for implementation across tax agencies.
- b. A high-level Steering Committee, chaired by the Minister Finance/Advisor Finance, will hold meetings to review and oversee implementation of STRMP on a quarterly basis. The CRG, chaired by the Secretary Finance, will continue to coordinate implementation of STRMP on a monthly basis and take the necessary measures to streamline and speed up implementation. These committees will set performance targets and receive reports against them to promote result-oriented implementation.

A. Rationale and Objectives of Sindh Tax Revenue Mobilization Plan

11. The GoS attaches great importance to the pursuit of development for the people of Sindh. It aims to continue with its programs of investment in human resource development and public infrastructure for sustained economic growth and accelerated human development. Public revenue is essential to pursue these objectives. There is a recognition that additional revenue needs to mostly accrue from own source taxation. In this context, this STRMP contains wide-ranging tax reforms which will increase tax collection from the current Rs. 91.37 billion to Rs. 200 billion in next three years.
12. Sindh is highly urbanized and has a large manufacturing base. However, improvement in social indicators has been slow, particularly in rural areas. To improve the socio-economic conditions of the province, the GoS has initiated a number of programs to improve governance in the province, one of which includes the areas of tax policy and administration. The aims of the GoS include increasing own-source revenue, improving the efficiency and equity of the provincial taxation system, lowering the administration and compliance costs, and enhancing voluntary tax compliance. All of these objectives will be met through well-planned and sustained efforts at modernizing the tax administration.
13. Due to the centralized nature of fiscal administration in Pakistan, the provinces have been overly dependent on the federal government for revenue transfers in order to finance their budgets. An extremely low tax to GDP ratio, estimated at less than 0.5 percent, has persisted despite tax reforms remaining on the agenda for some time.
14. To consolidate and deepen reform initiatives of GoS, this medium-term STRMP has been formulated. It aims at setting up a reform roadmap to improve revenue collection and taxpayer satisfaction over the next five years. Through a number of stakeholder consultations, the plan has been prepared under the leadership of a policy level Strategic Reforms Group (SRG), a senior level Core Reforms Group (CRG) supported by four Operational Reforms Groups (ORGs) in four agencies: FD, SRB, BOR and ET&N. The roadmap envisages a set of activities to deliver results that cover a wide range of cross-cutting tax policy and tax administration issues including tax simplification, modernization of tax administration and taxpayer facilitation. The STRMP has the following objectives:
 - a. Increase own source revenues, thereby enabling higher investments in development programs;
 - b. Reduce administration and compliance costs;
 - c. Enhance voluntary compliance; and
 - d. Improve the efficiency and equity of provincial taxation.
5. Through implementation of STRMP, tax receipts are expected to increase from the current Rs. 91.37 billion to Rs. 200 billion in next three years thus an additional revenue of PKR 109 billion will be available for development of Sindh. The revenue gains through different reforms measures are based on the projected revenue by the tax agencies - SRB, ET&N and BOR.

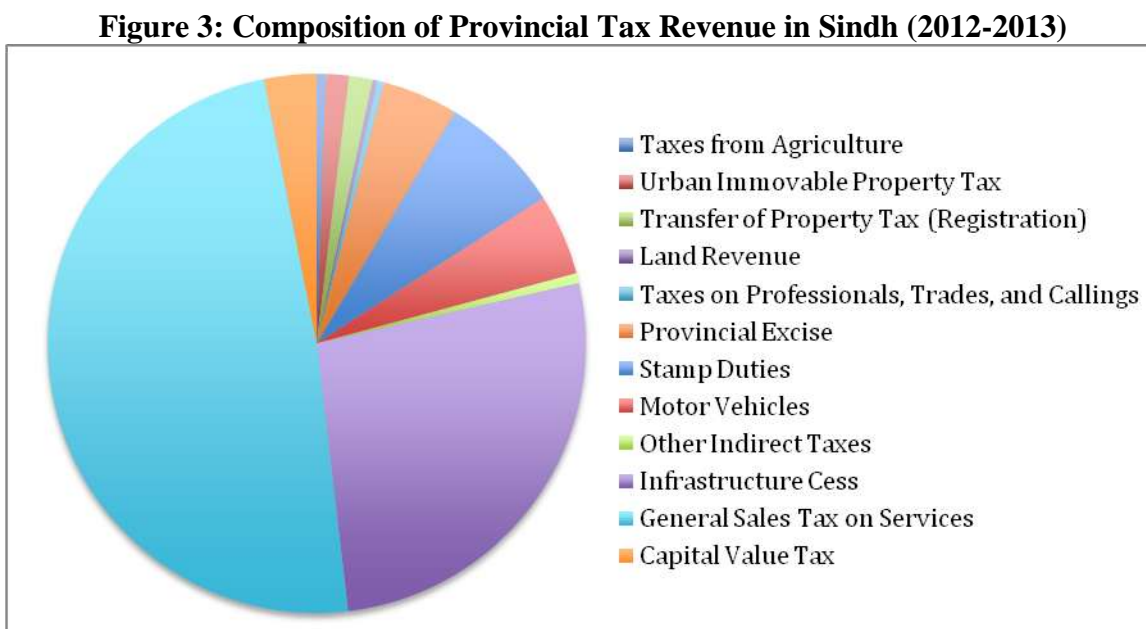
B. Policy Rationale for Tax Revenue Mobilization in Sindh

15. During the last eight years, Sindh has struggled to generate sufficient revenue to meet investment requirements for its development objectives. Tax revenue mobilization has been attenuated by a weakening tax administration in Sindh. In the period from 2004 to 2009, own source revenue (in real terms) was mostly stagnant (see Figure 1). The composition of OSR in Sindh did not change very much either during the same period. On average, tax revenues were 73 percent and non-tax revenues averaged 27 percent of total provincial own source revenue over the eight years 2004 to 2013. There is realization in GoS that low revenue mobilization should be addressed in order to meet expenditure targets under its development policy. A continued reliance on non-tax sources of revenue was not likely to be sustainable. Furthermore, the GoS recognized that closer alignment of tax burdens and expenditures to residents' preferences would lead to higher social welfare and gain wider political support.
16. In 2010, the seventh National Finance Commission (NFC) Award substantially enhanced the provinces' share in federal funding. Specifically it devolved the responsibility of power to collect sales tax on services to the provinces from the federal government. This has given impetus to efforts in the provinces - particularly Sindh and Punjab - to streamline their tax organizations to meet this challenge. To maximize its revenue potential under the new delegated power, the GoS passed the Sindh Revenue Board Act in 2010, and subsequently the Sindh Sales Tax on Services Act in 2011, to create an exclusive authority for collecting sales tax on services, namely the SRB. At the same time, the GoS gave SRB considerable administrative and financial autonomy over the management of human resources, design of organizational structure, strategic planning, and administration of its budget. This resulted in significant additional resource mobilization in Sindh.
17. The GoS levies the Infrastructure Cess which is collected by ET&N Department. This new tax has also contributed to increased gross tax revenue in the province of Sindh. This has led to earnest efforts by the political leadership and senior management of Sindh to streamline tax policies and tax administration in the province. Taxes collected by BOR, particularly on the transfer of property, have not made a significant contribution compared with other provincial taxes.
18. Other than Sales Tax collections, collections of provincial taxes have varied little in recent years. In FY 2009/10 (Pre-7th NFC) the total taxes collected amounted to PKR 7.141 billion. Collection in FY 2010/11 (First year of 7th NFC) was up by 133% amounting to PKR 16.623 billion. In FY 2011/12 (First year of collection by SRB) the gross tax collection increased to PKR 27.959 billion (68% growth), and in FY 2012-13 this grew by 19 percent amounting to PKR 33.246 billion. This growth was primarily due to transfer of sales tax on services from FBR to SRB, which amounted to PKR 27.959 billion in 2011/12 as compared to around PKR 16.623 billion in 2010/11, when collected by FBR. There was also an increase in tax collection by the ET&N, mainly on account of infrastructure cess of PKR 6.984 billion and additional taxes amounting to PKR 2.234 billion by the BOR. In FY 2012-2013, the growth rate of nominal tax revenues was 13 percent over previous year. SRB continued remarkable collection growth and collected PKR 33.246 billion in 2012/13, and has set a target of PKR 42 billion for the fiscal year 2013-14.



Notes: The real collections are reported in year 2000 rupees; calculated by using GDP Deflator from Finance Department, Government of Sindh

Source: Finance Department, Government of Sindh



Notes: 1/ Figures are preliminary 2/ Hotel Tax, included in Other Indirect Taxes, was levied and collected in FY13

Source: Finance Department, Government of Sindh

19. The Sindh provincial government has 15 taxes and other minor levies within its mandate, but revenue collection is highly concentrated in few taxes (see figure 3). The taxes and fees are levied on a variety of tax bases assigned to the province under the Constitution, ranging from taxes on agriculture income to sales tax on services. The contribution of different taxes to total tax revenue in Sindh are shown in Figure 4. Nine of 15 taxes constitute almost 99 percent of total collections. In FY 2013, 49 percent of collections were estimated to be from sales taxes on services and 27 percent from infrastructure cess; these two taxes thus account for 75 percent of provincial tax collection. Another 12 percent of revenue is collected from transfer of property taxes which include stamp duty, registration fee and capital value tax. Property tax does not yield revenue in accordance with its potential as it contributes to less than 2 percent of total tax collection in Sindh.
20. The high concentration of a few taxes to total own source revenue has several implications for the STRMP. Since six taxes contribute less than 1 percent to the total revenue, a detailed analysis and review to analyze their costs of collection and if they are levied for any specific purposes should be undertaken.⁴ If these taxes do not serve a set purpose, they may be reviewed as candidates for simplification of taxation and reduction of costs of collection in Sindh. One exception to this would be the Urban Immovable Property Tax which is currently underperforming. In this case, the low contribution is worthy of notice as reform of property tax can move the province toward its goal of revenue adequacy. There was a general consensus among the members of the ORG that provincial receipts have the potential to increase phenomenally even without depending on a corresponding increase in the tax rate. It is therefore imperative that a holistic approach is followed. This would entail building innovative perspectives on provincial tax revenue mobilization strategies.
21. **Tax Administration.** At present, the institutional structure of Sindh in relation to tax administration of the 15 provincial taxes is split among three independent tax collecting agencies: ET&N, SRB and BOR. Under the Sindh Rules of Business 1986 the FD has been assigned an advisory role in the realm of revenue and expenditure policies. The FD acts as a coordinating and facilitating organization to these tax collecting agencies in addition to its overall mandate to prepare the provincial budget, plan resource mobilization, tax policy and analysis, and exercise control over the expenses of the GoS.
22. The ET&N department is mandated to collect the (1) property tax; (2) professional tax; (3) infrastructure development cess; (4) motor vehicle tax; (5) excise duty; (6) cotton fee; and (7) entertainment duty. The BOR has a dual mandate. Primarily it is the custodian of land records, but it also provides services for executing property transfer deeds on which it levies (1) registration fee; (2) stamp duty; (3) capital value tax; (4) agricultural income tax; (5) and land revenue.

⁴ Revenue adequacy is a key parameter for evaluating any tax. At the same time, taxes can be useful in addressing negative externalities and serving other economic purposes. Such Pigovian taxes would be levied primarily for non-revenue objectives and would yield revenue as a secondary objective. For example, see White, Andrew J. "Decentralised Environmental Taxation in Indonesia: A Proposed Double Dividend for Revenue Allocation and Environmental Regulation." *Journal of environmental law* 19, no. 1 (2007): 43-69; Brueckner, Jan K. "Price vs. quantity-based approaches to airport congestion management." *Journal of Public Economics* 93, no. 5 (2009): 681-690; and Knittel, Christopher R., and Ryan Sandler. *The Welfare Impact of Indirect Pigouvian Taxation: Evidence from Transportation*. No. w18849. National Bureau of Economic Research, 2013.

23. In addition, electricity duty is also collected by GoS under the Sindh Finance Act, 1972 (read with West Pakistan Finance Act, 1964).
24. Since 2011/12, the SRB has been mandated to collect sales tax on services. Table 1 below shows the share of revenue collection by the three entities. In 2012/13, for example, the BOR collected 13 percent of total provincial own-source revenues, while ET&N and SRB collected 38 and 48 percent, respectively.

Table 1: Revenue Collection by Tax Entity				
<i>(in millions of rupees)</i>				
	2009/10	2010/11	2011/12	2012/13
ET&N	18,721	21,326	27,989	26,282
BOR	6,304	10,314	8,458	8,719
SRB	7,141	16,623	27,959	33,246
<i>(in % of total)</i>				
ET&N	58%	45%	44%	38%
BOR	20%	21%	13%	13%
SRB	22%	34%	43%	49%

Source: Finance Department, Government of Sindh

25. There is a vacuum in the area of tax administration and policy coordination in the existing setup of provincial tax administration. There is therefore a need to strengthen provincial capacity for policy deliberation and decisions, coordination for tax policy objectives and integrated leadership of tax administration. The below three objectives will help improve coordination efforts:
- Evidence-based analysis on tax policy and administration:* Reliable and valid data on tax efficiency, equity, and impact is not readily accessible, which hinders the formulation of a holistic tax policy. Moreover, the economic values and taxpayer data used as the basis for assessing different taxes are archaic and need to be updated. This warrants the commissioning of an organizational arrangement on a permanent basis.
 - Linkage between policy and administration:* Currently, consultations between the tax administration and the FD are done on need basis. There is a recognized need to develop a formal linkage between FD and the revenue collecting agencies as in order to foster more informed decision making. There is also recognition that a strategic plan should be developed in order to project and analyze individual taxes from an integrated perspective.
 - Operational Coordination:* The three tax administration agencies recognize the need for inter-agency coordination to create synergy for improved tax administration. The FD does play a moderator's role and consults these three revenue-collecting agencies on various policy and budgetary issues.

For further discussion of issues in tax administration see Annex 8.

26. **SRB and Sales Tax on Services.** In order to keep SRB on a trajectory of institutional development, further investment in both tax administration systems and IT will be required. To augment the existing capability, systems for risk based audit, appeals, integrity management, business intelligence, e-payment and e-refunds and automation of sales and record keeping in the unorganized sectors will be developed to enhance effectiveness of tax administration and minimize perverse incentives due to differential incidence of sales tax. Business process reengineering will be carried out to incorporate IT for the entire range of functions from registration and assessment to audit and appeals. Input adjustment protocols and systems with FBR, Punjab and other provinces will be another area of focus that will be coordinated through the TRU. Retail sector field automation is a high priority with SRB. This should be conceived and implemented as a pilot project to build institutional readiness for expanding the tax net of sales tax on services in Sindh. This will be followed by expansion of collection efforts into property development, construction and contractual services. Details of the envisaged SRB reforms are given in **Annex 3**.
27. **ET&N and Property Tax.** ET&N has identified property tax to be a high priority for reform, amongst the seven taxes in its purview due to low collection rates.⁵ Valuation, assessment, communication of tax liabilities, collection, audit, appeals and integrity management will be strengthened through the introduction of IT-based solutions integrated with reform and re-conception of institutional processes. A well-orchestrated plan for reskilling and deployment of sufficient staff for field surveys, implementation of a well-organized plan to capture additional units in the tax base, increase collection efficiency from the current low level of 22 percent, increase enforcement and implementation of an IT-based system of records, bar coding of *challans*, use of GIS information for field survey plans, process monitoring and management will strengthen tax administration of property tax. IT-based record-keeping, generation of tax liabilities, collection and supervision will create accurate estimates of total liabilities, collection and arrears providing information for focusing administration efforts on areas of maximum revenue gains, thereby enhancing efficiency of tax collection. To seek higher functionality of tax offices, the physical office environment will be improved and a modern performance management system will be developed. Increase in collections by ET&N is largely on account of infrastructure cess. Sales tax on services was brought under the provincial purview in 2011-2012. This has contributed positively to the overall revenue collection of the Government of Sindh. For details of ET&N reforms see Annex 5.
28. **BOR and Transfer of Property Taxes.** BOR has a dual mandate. Primarily it is the custodian of land records. In addition, it also provides services for executing property transfer deeds on which it levies registration fees, stamp duty and Capital Value Tax (CVT) in respect of properties resold within two years from the date of purchase.
29. Out of the six land-based taxes collected by BOR, transfer tax on property and registration fees provide the largest share of revenue. Immediate gains in tax revenue mobilization and its interlinked service delivery will be achieved by simplification of the tax structure, rationalization of the nominal tax rates and automation of the transaction registration process. KhaThe latter will build on the scanning of documents system in force at present and a new

⁵ Hotel Tax was withdrawn during the Budget for the year 2013-14.

system for recording property registration which is currently operational at some registration offices. The system will be integrated with digitization of land records, in turn leading to automation of the registration of property transaction process. Valuation of property transactions is based on tables notified by BOR. These have not been updated for the last 12 years and do not represent actual market values of properties. Field visits revealed that the declared property values are very seldom higher than those applicable from the valuation tables. Valuation tables should be updated and a system of indexed valuation tables should replace the current tables to prevent erosion of the tax base over time.

30. **BOR and Stamp Duty Reform.** BOR will lead a review of the current stamp duty tax structure to implement simplification of the tax regime. It will also institute an automated system for the calculation of tax liabilities allowing for an online payment option for taxpayers. Upon completion of land and property records' computerization as described above, there will be integration with the IT-based stamp duty and transfer of property tax system. Public-private partnership models will be studied and depending upon suitability to various components of the tax administration, these will be adopted in implementation. Reforms to increase revenue from BOR taxes are given in **Annex 6**.

C. IT Investments—the Foundations for a Modern Tax Administration

31. A number of IT initiatives in tax administration have been undertaken despite resource constraints and obstacles to change management. These reflect a positive approach and provide the foundation of future IT modernization reforms vis-à-vis STRMP implementation. As a result, a high percentage of revenue collection in Sindh is processed in a fully automated manner through on-line transaction processing systems. For example, sales tax e-filing coverage is 100 percent and infrastructure cess is close to 100 percent.
32. SRB has very effectively employed the FBR system for sales tax automation (PRAL) during the transition from federal to provincial collection. At present, it has sales tax collection automated through e-filing (100% coverage), invoice cross-checking and payment reconciliation. SRB has set up a well-equipped data center with its own resources of over US\$4 million, which will allow it to create additional capability in the software systems not just for itself but also for the other GoS tax agencies, ET&N and BOR.
33. However, technical capacity for IT systems for tax collection in GoS is restricted to SRB. It has not been utilized by other tax collecting agencies and The ET&N Department has had a system for Motor Vehicle Registration since the early 1990s; however, the system has recently been completely redesigned for the web environment through local outsourcing. This system has a province-wide footprint and no motor vehicle transaction is done outside of the system. Similarly, the infrastructure cess is also collected in a completely automated manner (almost 100% automated coverage). Recently in Karachi the property register *has been* computerized and computer generated demand notices (*challans*) are to be issued as a first step towards automating the Urban Property Tax System.
34. The BOR has made remarkable progress to ensure that land records since October 2010 are digitally scanned, indexed and stored securely. A system of land transaction registers (khata) on security paper with elaborate SOPs on ensuring integrity and completeness of records has

been put in place. Since October 2010 no land mutation in Sindh is carried out without prior digital scanning and indexing. Similarly, BOR is executing an ambitious Land Administration and Revenue Management Information System (LARMIS) project as part of which all the historical land records of Sindh have been digitized; the data entry of these records (in Sindhi language) has started which is expected to be completed within one year. This data is also being mapped to GIS. Based on this effort three model service centers are being commissioned in FY 2014 at Hyderabad, Matiari and Tando Muhammad Khan. A new system for recording Property Registrations has also been developed which is hosted centrally at SRB and is currently operational at about 19 registration offices in the province and needs to be progressively expanded to all registration offices. Presently, there are 89 registration offices in Sindh. This number may be revisited based on the strategy being followed for the land records system under the LARMIS project. All of the above has been achieved through indigenous funding. The PC-1 for the LARMIS project is for approximately PKR 4.2 billion.

35. Despite these impressive IT modernization efforts, there is need to further improve the IT systems of tax assessment, collection and oversight system including risk based audit to remove inefficiencies in tax collection. Furthermore, there is virtually no coordination and linkage among the RCAs to use common platforms for efficient tax collection and data housing. Each RCA is working in its own domain and trying to develop its IT systems, causing duplication and wastage of GoS resources. Even for getting PRAL services, For example, both the SRB and ET&N, both entities of GoS, have been making separate agreements with PRAL rather than working together as the , when GoS might have got to get a better deal by negotiating with PRAL as a single customer.

D. Key Reform Components

36. Considering the importance of revenue performance for development policy in Sindh, the Tax Revenue Mobilization Plan will focus on four areas with high potential, as described below:

- 1) **Institutionalizing evidence-led tax policy and administration and coordination mechanism**

37. The FD has a formal role under the Sindh Rules of Business, 1986 to provide advice to the provincial government on expenditure and revenue policies in the province. Development of well-informed and evidence-based initiatives for tax revenue mobilization requires institutionalization of capacity for tax analysis in revenue forecasting, tax compliance gaps, compliance and administrative costs, tax expenditure analysis, impact of tax reforms (macroeconomic and operational), among others. To undertake such research and analysis, the FD has identified the need to create a 'Tax Reform Unit' (TRU) under its auspices. This unit will generate data and information, design and implement specific initiatives or measures for raising optimal tax revenue, and orchestrate a tax policy dialogue among the tax administration entities. The institutional arrangement will replace the current practice of setting up incremental revenue targets for the three tax agencies with performance targets

that are based on analytic foundations. The unit will work with academic institutions and other specialist institutions to undertake research on tax analysis identified by the TRU.

38. Presently, no system exists for a structured communication among the three tax collecting agencies. For this purpose, CRG will be retained and will serve as a forum to foster much needed coordination between the three tax agencies to share the Government's policy, monitor realization of policy objectives, facilitate knowledge sharing, and lead opportunities for improved integration and synergy. It will help FD to identify policy issues that need to be resolved in coordination with the federal and other provincial governments. ORGs will also be retained and will spearhead implementation of the proposed STRMP in the individual tax agencies through close monitoring and an effective strategy of change management. The CRG and the TRU will work closely together.
39. **Fostering Critical Inter-Agency Linkages.** In addition to the systemic interventions discussed above, interagency linkages are important as well. Critical data linkages between systems operating in SRB, BOR and ET&N, including the enforcement of a Unified Taxpayer ID and the creation of a data warehouse and Unified Tax Portal will be essential in the short run. In addition, there will be a requirement for common IT Policy coordination between GoS tax agencies. For all three agencies, a strategy will be prepared to ensure optimal utilization of IT resources across departments, augmentation and validation of disaster recovery and business continuity capability, and institution of a cyber-security framework. Moreover, the FD will play a lead role in researching and advocating best international practices for preparing Audit Plans for the performance of an effective audit function in the three tax agencies. Likewise, the best international practices in the field of Integrity Management will also be introduced to plug the leakages of revenue on account of rent-seeking and other corrupt practices.

2) Institutionalization of IT based business processes for efficient tax administration

40. Building on ongoing GoS initiatives to modernize tax administration, key business processes for sales tax on services, Urban Immovable Property Tax and fee/duty/tax on property will be re-conceptualized and re-engineered to gain maximum revenue productivity. Initial steps will involve formulation of a coherent IT strategy, establishment of IT governance protocols and creation and execution of an architectural vision in which IT Strategy is firmly interwoven into the institutional development of tax agencies spanning assessment, collection, audit, appeals and integrity management. The audit and risk management process will be strengthened. In the short run, the initiatives will focus on automation of record keeping and sales transactions in the unregulated sectors, upgrade of the Urban Property Tax Management system, creation of an operational data store and tax portal to broaden and deepen the tax base, and Model Service Centre for Citizens for tax collection, registration and record of rights management and its pilot roll-out at three locations. In the medium-term, automation will be expanded for sales tax on services, with emphasis on business intelligence, expert systems, risk analysis and e-payments and e-refunds. For the property tax, expansion will move to include all 22 zones in Karachi and the remaining cities of Sindh. Another step will be upgrade of operational data store to a data warehouse with stronger business intelligence capability. Under BOR, expansion of Model Services Centres for tax collection, registration and record of rights will be carried out to all districts of Sindh. Elements of reforms under

Component 2 are listed in **Annex 4, 5, and 6**. The GoS capacity building initiatives are summarized in **Annex 7**.

3) Strengthening tax facilitation and enhancing taxpayer education to increase voluntary compliance

41. A key objective of the tax reforms in Sindh is to enhance voluntary compliance. This will be achieved through several actions. Tax compliance costs will be lowered by easing e-filing options in business process reengineering in all the taxes. In order to focus large-scale taxpayer education programs, initial studies will be carried out to identify factors which can be employed to increase tax morale in the province. Based on such evidence, an essential component of the reforms will be a targeted plan for taxpayer education and facilitation. Specific options for tax facilitation and lowering compliance costs will be designed and implemented in sales tax on services, property tax and transfer of property taxes. Taxpayer facilitation centers will be established by BOR as pilots in two tax jurisdictions to implement and refine facilitation mechanisms. These will be used to further develop options for roll out of facilitation services across the province. Taxpayer facilitation measures at the point of interaction - toilets, shaded parking and waiting areas, drinking water – will be part of the facilitation centers. These will be constructed as integral components of the facilitation centers. IT-based provision of information and tax facilitation services, instituted as part of tax systems reform in all three tax agencies, will reduce compliance costs and contribute to revenue gains. The elements of Component 3 reforms are listed in **Annexes Annex 4, Annex 5 Annex 6**.

4) Generation of a policy dialogue to create and sustain impetus for tax reforms seeking revenue productivity as well as efficiency and equity in taxation

42. Taxation in Sindh has several areas which are performing below their potential. Due to their importance, in addition to demand driven research commissioned by the Finance Department, a policy dialogue will be generated to develop policy options for reforms and sustain impetus for implementation of reforms. Tax reforms have been slow due to lack of policy options grounded in the local context and absence of analytic foundations to perceptions of hurdles. A number of areas in tax policy and tax administration hold promise for substantial revenue gains. Simplification of the tax regime, exploration of avenues to reduce tax administration costs, ways to enhance tax morale, tax incidence analysis and measures to enhance efficiency and equity of taxes, are key areas where analytic work will contribute to the emergence of a well-informed policy dialogue. In particular, analyses of tax incidence, vertical equity in taxes, tax gaps under current policy and taxpayer behavior will define feasible options to reform tax policy and strengthen tax administration in Sindh. Such analyses will guide efforts to widen the base of sales tax on services, highlighting efficiency and equity implications of the initiatives. A study will be carried out to estimate tax gaps in a sample of locations to strengthen the policy dialogue around property tax reform and sustain impetus of implementation through linkage with academia. It will, *inter alia*, document the costs of exemptions, establish measures of losses due to weak administration and assess the effects of targeted interventions for taxpayer facilitation on revenue collection. A continual effort will be made to assess the effects of tax reform implementation and through analysis provide timely feedback to implementation. All three tax agencies require immediate technical support to improve the design and structure of the taxes that they administer and

collect. For example, SRB needs guidance on defining the location of consumption of various services as the tax is a location based levy (i.e. services consumed in Sindh, other provinces, or outside the country) for purposes of levying the general sales tax (GST). They also need technical support in clarifying the structure of services in complex transactions in the financial, insurance, and IT sectors.

F. Institutional Arrangements for Implementation

43. The CRG will provide leadership, technical support and management decisions for implementation of the Sindh Tax Revenue Mobilization Plan. Existing institutional relationships and hierarchies will be leveraged to create workable arrangements which can facilitate a dialogue in support of reform as well as provide timely decisions for implementation across tax agencies.
44. A high-level steering committee chaired by the Minister Finance/Adviser Finance, Government of Sindh will be in place to ensure effective implementation of STRMP. The steering committee will hold at least one meeting quarterly for smooth implementation of STRMP. The SRG headed by the Chief Minister will continue to exist as the apex forum. The CRG chaired by the Secretary Finance will continue to exist to oversee STRMP implementation through monthly review meetings and will provide strategic direction and guidance, and facilitate coordination between tax agencies. The ORGs of the respective departments/RCAs will continue to exist and will ensure implementation of the reforms in their departments/RCAs. These committees will set performance targets and receive reports against them to ensure result-oriented implementation.
45. A substantial amount of resources will be required for implementation of STRMP. GoS will allocate resources to implement the reforms spelled out in STRMP. It will also strengthen its ongoing dialogue with the World Bank and other donors to seek financial support for implementation of critical reforms under STRMP.

G. Risks and Mitigation Measures

46. The Plan comprises wide-ranging reforms, which will require sustained commitment and coordinated efforts through several government agencies. Tax reforms are perceived to change the status quo and all actors may not equally support implementation. Perceptions about relative importance and sequencing of reform actions may also vary across agencies. In particular, the following risks that may occur during implementation are discussed below along with mitigation measures.
47. **Sustained Commitment.** STRMP implementation will generate debates about different aspects of reforms. Some of these may be agitated by interest groups who may perceive reform measures to be inimical to their short-term interests. On the whole, STRMP implementation will contribute to general development of the province. All residents of Sindh province will gain from development. Sustained commitment of the senior leadership will enhance the pace of implementation, remove impediments and smooth out differences of opinion. FD will carry out periodic briefings to sustain momentum of implementation.

48. **Weak Implementation.** Improving the efficiency, enforcement, and transparency of sales tax on services involves expansion to new sectors and institutional changes. Expansion to new sectors may lead to resistance or opposition from those who have the most to lose due to reforms. They include those who would experience an increase in tax and the officials who collude by underreporting or not declaring tax liabilities. To build support from taxpayers at large will require a well thought out communication plan. This should be designed and initiated as early as possible.
49. **Continued Reliance on Federal Transfers.** Perennial low OSR and high reliance on federal transfers for 70 percent of the provincial budget weakens incentives for reform of tax administration. The availability of federal transfers and non-tax revenue sources may diminish emphasis on tax revenue mobilization from provincial taxes, in light of opposition to implementation of reform measures. A well laid out policy dialogue will be carried out through policy research under the auspices of FD and supported through the linkage with academia to provide strong support to tax reforms included in STRMP. Clarification of winners and losers, positive messages in the form of revenue gains for development in the province, and creation of an issue-focused debate will create space within the political economy to sustain action on necessary reforms.
50. **Efficiency and Administration Priority for Expansion of Tax Base.** SRB aims to expand sales tax into other sectors from the perspective of cost of collection. Sectors requiring higher tax efforts may need to be in the prioritized list for economic efficiency and equity, which in turn impinges upon tax compliance. Timely assessments will need to be carried out on the demands of SRB and its systems as the entity expands its coverage to restaurants, property development, construction and contractual services. Personnel management systems also need to be uniquely designed to serve the needs of a well performing tax collection agency. The present rush toward civil service systems may need to be reviewed and assessed so that they do not marginalize performance and set up perverse incentives for long-term career paths.
51. **Low Capacity at ET&N and BOR.** The workforce in these tax agencies has weak capacity across all core business areas. In some cases, the basic qualifications are reported to be weak though no accurate estimates are available. Introduction of IT-based business processes will require capacity building without which the systems may not yield their potential gains in revenue collection. In both agencies, early on, studies of tax policy and administration will document the costs of exemptions, losses due to weak administration and identify systemic areas for further reform. Evidence generated by such studies will help maintain focus on priority reforms. At the same time, institutional assessment of both agencies can help develop a medium-term change management strategy which will chart out an implementation plan without risking resistance to change.
52. **Lack of Coordination amongst the Tax Entities.** The lack of coordination among the three tax agencies may continue if organizational integration is not achieved. This could be brought about by linking databases and synergizing collection systems.
53. **Low Tax Morale by Taxpayers.** At present there is evidence of low tax morale, due to a combination of several factors: there are perceptions that taxation is not equitable, and

compliance costs are high due to underdeveloped systems. Low tax morale could be countered by specific interventions for taxpayer education and facilitation.

54. **Continuity of Senior Management.** In case of any abrupt change in senior management, the reform process most probably would receive a setback. Hence, for successful implementation of reforms it is important to ensure continuity of administrative senior management in the FD and tax agencies.

Annex 1: Process for Sindh Tax Revenue Mobilization Plan Formulation

An ongoing dialogue was carried out from May 2013 to December 2013 between the FD and the three tax collecting agencies to identify and refine their recommendations on the proposed administrative reforms agenda, which culminated in the STRMP. As a result the reform agenda is characterized by high institutional ownership. The dialogue process was unique in its characteristics as included both operational level individuals in the tax agencies as well as the senior leadership of the concerned departments. The discussions were structured to allow maximum participation by each level of participants.

A three-tiered structure was instituted within the stakeholders' organizations to perform the task, namely: the Operations Reform Groups (ORG), Core Reforms Group (CRG) and the Strategic Reforms Group (SRG). Separate ORGs were established at the FD and each RCA. The members of the ORGs were essentially mobilized amongst Unit Heads and Functional Managers with strong understanding of operations in their respective agencies. The ORGs are headed by the respective Departmental Heads. The CRG brings together heads of the RCAs and senior officials from FD and other relevant offices such as AG Sindh. It is headed by the Secretary Finance, Government of Sindh. Finally, the SRG represents the political government and senior administration, Government of Sindh. It is headed by the Chief Minister, Sindh.

The mandate of the ORGs was to conduct discussions and deliberations amongst themselves, diagnose challenges facing their respective agencies and formulate recommendations on the tax reforms agenda for consideration of the CRG and SRG respectively. The CRG was established to review and consider the tax reform recommendations both from an independent agency perspective and a collective perspective. These were subsequently submitted to the SRG along with their specific recommendations, for their consideration and approval.

Process:

One-on-one meetings and focus group discussions were conducted. Approximately four to five sessions were held with the ORGs to finalize the individual reform plans of RCAs as well as of FD.

1. In the initial stage, one-on-one meetings were conducted with the respective heads of the departments. The meetings focused on objectives and methodology for the task. During the meetings, the department heads took decisions to mobilize ORG members. This activity was carried out separately for each RCA and at the FD.
2. In the second phase, three focus group discussions were held at the BOR, ET&N Department, and FD, respectively. About 12 to 15 persons on average participated in each discussion group. A focus group discussion was scheduled at the SRB, but due to sudden restructuring of the members positions, it was converted into a group discussion consisting of the Chairman, one member, and two commissioners. The methodology used was simple: participants were grouped into small clusters and each cluster was given similar discussion points. They were asked to discuss amongst themselves the challenges facing their respective tax organization; possible reforms thereof; and, probable impact of the solutions on tax revenue. Subsequently, their findings were shared with the whole

group, discussions were generated, and consensus was developed, all of which was duly documented.

3. Overall, about one Focus Group Discussion at each entity was followed by several meetings over a period of three months. The core members of the respective ORGs and the departmental heads were convened to finalize their diagnosis and reform recommendations.
4. In general, the discussions at the ORG meetings focused on administrative challenges facing the respective entities, such as difficulties in enforcement of the tax regime in certain situations; scope of possible review and revision of existing tax laws and regulations; and the need to upgrade HR capacities at each level. The groups also considered the need for process re-engineering and automation, and use of state of the art information technology. Taxpayers' education and facilitation was also identified as critical for building an affirmative tax culture.
5. There was a general consensus that optimal tax revenue increases can come from updating tax regulations and policy. Other administrative measures such as automation and advocacy would also augment the increase in tax revenue incrementally, as well as improve transparency and efficiency of the departments leading to better taxpayer facilitation and confidence.

In the last phase, the challenges were collated, and then reforms and probable impact on tax revenue were drawn up. The draft reform proposals were once again discussed with the respective heads of the ORGs and changes were made as per their recommendations. The drafts were then sent back to the respective heads for their internal validation and approval. Final versions of the reform proposals are in **Annex 4, Annex 5, and 6.**

Annex 2: Members of Reform Groups

Composition of Strategic Reform Group (SRG)

1. Chief Minister Sindh – Chairman
2. Chief Secretary, GoS
3. Advisor to the C.M. on Finance
4. Two MPAs to be nominated by C.M.
5. Senior Member BOR
6. Additional Chief Secretary (Planning & Development)
7. Secretary Finance
8. Secretary ET&N
9. Accountant General, Sindh
10. Director General Audit, Sindh
11. Chairman SRB
12. Chairman Sindh Public Procurement Regulatory Authority (SPPRA)
13. Special Secretary Finance (Budget & Resources)
14. Chief Economist (Finance Department)

Composition of Core Reform Group (CRG)

Core Reform Group (CRG) – FD

1. Chairperson Mr. Mohammad Sohail Rajput – Secretary Finance
2. Tashfeen Khalid Niaz - Chairman SRB
3. Secretary - ET&N
4. Mr. Zulfiqar Ali Shah– Member Refroms, BOR
5. Dr. Noor Alam – Chief Economist – FD
6. Mr. Khalil ur Rehman – Additional Finance Secretary (Res)
7. Shoaib Siddiqui - DG E&T
8. Mr. Muhammad Issa Memon - Director (ERU), Finance Department
9. Mr. Aftab Ahmad, Director, ERU
10. Ms. Ayesha Abro – Deputy Secretary (Res-II), Finance

Composition of Operational Reform Groups (ORGs)

A- Finance Department:

1. Khalidur Rahman – Additional Finance Secretary (Res)
2. Aftab Ahmed – Director (ERU)
3. Muhammad Issa Memon – Ex-Director ERU
4. Ayesha Abro – Deputy Secretary (Res-II)
5. Zulfiqar A. Anwar – Section Officer (Res-I)

6. Saqib Bashir – Additional AG Sindh
7. Kamran Mughal – Depty AG Sindh
8. Muhammad Pathan Abro – Senior Programmer Resources, FD
9. Asif Jahangir – AFS (Bro)
10. Muhammad Hassan Memon – Database Manager ERU
11. Siddique Ali Chandio– Director IT, FD

B- Excise Taxation and Narcotics:

1. Shoaib Siddiqui – DG ET&N
2. Dr. Mujeeb Serhandi – DET&N (Excise)
3. Saleem Bhutto – DET – (Larkana)
4. Abdul Razzak Radhen – DET&N Sukkur
5. Noor Ahmed Odhano – DET&N Admin / Manager Karachi
6. Aurangzeb Panwhar – DET&N Hyderabad
7. Nazimuddin – ETO Codn. Port Qasim
8. Muhammad Pervez – Deputy Director Computer
9. Muhammad Akhtar Azad – DET&N (HQ)
10. Nasiruddin Khan – IT Consultant- WB
11. Masood Aziz – Tax Consultant
12. Sohailuddin Alavi – Consultant – World Bank
13. M. Zubair Talha- Inspector
14. S. Irshad Ahmed – ETO Professional Tax
15. SH Sohail – ETO HR Division (Professional Tax)
16. Anwar Abbas – Deputy Director Excise (Admn)
17. Waheed Shaikh – Deputy Director Admin.
18. Ayoob Ali Palhar – Director (Taxes-II) Karachi
19. Shabbir Ahmed Shaikh – Director (Taxes-I) Karachi
20. Aftab Alam – Deputy Secretary – Technical

C-Sindh Revenue Board (SRB) – ORG:

1. Tashfeen Khalid Niaz - Chairman SRB
2. SM Kazmi – Advisor, SRB
3. Muhammad Dawood Pirzada – Commissioner Operations-II.
4. Muhammad Iqbal Lakho – Deputy Commissioner

D- Board of Revenue (BOR):

Registration Wing

- | | |
|-----------------------|-----------------------------------|
| 1. Ghulam Abbas Naich | District Registrar, Karachi |
| 2. Khalid Chohan | Inspector of Registration Karachi |
| 3. Asif Iqbal Chandio | Sub-Registrar, Site, Karachi |

Stamps Wing

- | | |
|---------------------------|-------------------------------------|
| 4. Syed Ghulam Abbas Shah | Deputy Chief Inspector of Stamps |
| 5. Aijaz Ahmed Qureshi | Assistant Chief Inspector of Stamps |
| 6. Hussain Ali Thaheem | Assistant Superintendent Stamps, |

Automation of Stamps & Registration Project

- | | |
|-------------------------|--------------------|
| 7. Mr. Khalid Channa | Deputy Director |
| 8. Abid Hussain Soomro, | Assistant Director |

Annex 3: Tax Reform Unit at the Finance Department

Vision

Aiming to attain an evidence-based and harmonized tax policy environment enabling efficiency, equity and sustainable growth in tax mobilization that is consistent with sustained economic growth and social development particularly investment, job creation and poverty reduction.

Operational Mandate

The unit will provide critical information and link to its internal customers, the FD, SRB, ET&N, and the BOR as well as academia. **Its core value addition would be of being a catalyst in mobilizing research-based studies on tax policy and administration, and policy impact assessments.** The scope of studies would focus on taxation policies and administration, identifying new tax avenues, critically evaluating the rationale of existing tax exemptions and sponsoring policy dialogues across stakeholders to create consensus for meaningful tax policy and tax administrative reforms based on evidence-based research.

Operational Objectives

- a. To improve provincial tax policy and administration based on action research;
- b. To improve policy coordination between the three tax collection agencies and the Finance Department;
- c. To forge effective linkages with academia for evidence-based tax policy and administration.

Administrative Control and Linkages

The unit will be established and operate under the administrative control of the Finance Department, Government of Sindh. It will maintain linkages with academic institutions such as the Applied Economic Research Council, Karachi University; Institute of Business Administration, Karachi; Institute of Business Administration, Sukkur; Pakistan Institute of Development Economics; Sindh University, Jamshoro; Social Policy Development Centre, and any other local (within country) or international recognized university/research institute.

Annex 4: Sindh Revenue Board Tax Reforms

The Sindh Revenue Board has delineated the following reform strategies:

Reform Strategies

Intervention	Actions	Timeframe	Revenue Impact
Strategic Planning	3 year strategic vision, goals, objectives and action plan are already in place		Has led to sustained growth in sales tax collection to date.
Automation	Install 6,000+ POS terminals across the province with real time connectivity to SRB, at businesses in the unorganized sector such as restaurants; beauty salons; and other small sized service providers.	Activity will be phased out over a period of 3 years. In the first 6 months, POS will be installed in Karachi and some parts of Hyderabad and Sukkur	Expanded taxpayer base. This will <u>increase tax revenue by 25% in the sector, by the end of reform period</u>
	Develop common Provincial Tax Portal to register all payers and to create a common database of provincial taxpayers	To become fully functional facility with database of provincial tax payers in 1–2 years	Registration of all provincial taxpayers, including potential taxpayers, at one portal; Improved accessibility of credible data to GoS and all Revenue Offices for informed decision-making and tax administration.
	Provide access to other Revenue Collection Agencies to SRB installed e-storage and processing facilities	6 months to 1 year	This will synergize the capacities of the provincial tax collecting entities; and rationalize cost of IT infrastructure
Administrative	Commission a “Sectoral Study” to identify and analyze potential taxable businesses	6 months to 1 year	It is expected that this will increase the number of taxpayers leading to increased tax revenue of 20% to 25%
	Establish SRB Task Force for fact finding and strategizing to increase percentage of active taxpayers in the existing SRB pool of registered taxpayers	Already initiated in October 2013. It comprises of Chairman, Adviser Tax Policy and 3 Commissioners.	It is expected that this will bring <u>additional tax revenue of 10% by the end of reform period</u>
	Introduce risk-based tax auditing to increase tax collection from under-declaration and non-declaration of taxable service-based revenue	3 years	It is expected that this will bring <u>additional tax revenue of 20% by the end of reform period</u>
Human Resource Management	Develop professional cadre of Sales Tax Administrators through a rigorous training curriculum in Tax Administration, Tax Audit,	Already being implemented in-house. To be commissioned on more structured basis at Sindh Services Academy in 6	This will augment HR productivity. It will <u>increase tax collection performance by 10% by the end of the reform</u>

	Sales Tax Policy and Management	months	<u>period</u>
	Exposure of mid-career tax administrators to international tax organizations and systems	To commence in 6 months to 1 year	
	Taxpayers' education and moral suasion	6 months to 1 year	This will improve general awareness on Sales Tax Regulations, its rationality and impact on general public and businesses. It will improve voluntary compliance and <u>increase tax collection by 10% by the end of the reform period</u>
	Tenure of senior jobs at SRB should be 3 years	ASAP	This will provide consistency and continuity of management planning and implementation.

Annex 5: Excise, Taxation and Narcotics Department Tax Reforms

Reform Priorities

There is a general consensus in the department that reforms in property tax and professional tax have high revenue growth potential. For instance, there is room for improving property tax through objectively revising the “annual rental value estimates” commensurate with fair market value. Likewise, there are good reasons to conduct property surveys as a basis to add new properties that have not yet been registered with the department through the routine process; to identify properties on which additional structures have been added over time but again not reported to the department; and, lastly to identify residential properties that have been converted into commercial or industrial units but no information is available to the department. Similar benefits are envisaged under professional tax reforms. The department is already in the process of computerization and creation of electronic databases of these two taxes. In fact issuance of computerized tax *challans* of professional tax has already been started in the Karachi region w.e.f. 1 July 2013. By the end of February 2014, in some selected Divisions of Karachi, issuance of computerized property tax *challans* will also start. It is hoped that the department will be able to implement the reforms within a period of one to two years, provided adequate resources (technical and financial) are provided in time.

The department initiative of reforming the collection of Infrastructure Cess from manual issuance of *challans* to issuance of computerized *challans* by PRAL/Customs under the “One Customs” system way back in 2003, was very fruitful with a 75% increase in collection noted in one year. In a similar further step, the department linked the recovery of Infrastructure Cess with the “WeBoc” system of PRAL/Customs in 2010 wherein this cess is recovered along with customs duty and other federal taxes, leading to negligible chances of any leakage or non-payment.

The overall increase in revenue due to the proposed reforms is expected to be PKR.3,675 million.

Reform Strategy

Reform	Strategy	Actions/ Operational Steps	Revenue Effect/ Expected Revenue	Timeframe
Strategic Planning	Develop strategic directions followed by aligning the operational reforms	Develop organizational vision, strategic goals, objectives and action plan, and revisit structure if needed	-	6 months
Property Tax	<ul style="list-style-type: none"> Revaluation of annual rental value schedule through IT integrated field survey to revise ARV at par with fair market value. Withdrawal and 	<ul style="list-style-type: none"> Develop terms of reference, procure services of independent firm, coordinate design and conduct of the survey, revise annual rental value schedules. 	<ul style="list-style-type: none"> 150%* increase over the next 5 years. (i.e. PKR 2,250 M) Recovery of last financial year was PKR 1482.995 	<ul style="list-style-type: none"> 2 years survey in major cities starting from Sukkur, Hyderabad, Karachi, Larkana &

	rationalization of certain exemptions.	<ul style="list-style-type: none"> Amendment in Act & Rules for withdraw / rationalization of certain exemptions. Linkage of the field survey with proposed GIS survey of BOR / IT Department 	million	<p>Mirpurkhas followed by all other districts.</p> <ul style="list-style-type: none"> Survey of new rating areas.
Professional Tax	<ul style="list-style-type: none"> Rationalize tax rates. IT integrated field survey to update databases 	<ul style="list-style-type: none"> Conduct survey through third party / contractor. Survey can be executed in conjunction with property tax survey 	<ul style="list-style-type: none"> 200% increase over the next 5 years. (PKR 500 M). Recovery of last financial year was PKR 262.511 million 	<ul style="list-style-type: none"> 2 years survey in major cities starting from Sukkur, Hyderabad, Karachi, Larkana & Mirpurkhas followed by all other districts.
Automation	<ul style="list-style-type: none"> Design and operationalize Excise and Taxation portal that would allow web-based payment of <u>all taxes</u> through alternate modes, i.e. ATM, Credit card, Internet Banking etc. 	<ul style="list-style-type: none"> Through ADP schemes Computerized database already available 	-	1 year
Organizational Development	<ul style="list-style-type: none"> Establish SWIFT Tax Facilitation Centers across the province 	<ul style="list-style-type: none"> Design and build STFCs Train staff 	5% each in Motor Vehicle Tax & Property Tax (PKR 250 M)	<p>Model STFCs at Divisional Level in next 6 months to one year</p> <p>Replicate STFCs at all districts in next one year</p>

	<p>i) Introduce Risk Based Auditing & Accounting. Establish a full-fledged Audit Directorate.</p> <p>ii) Formalize IT Management through commissioning an IT Directorate</p>	<ul style="list-style-type: none"> • Allocation of posts and other Administrative expenses through SNE 2014-15. • Recruitment of officers / staff • Establishment of offices • System of reconciliation / audit will be linked with NBP, AG Sindh & treasury etc. • Operationalize the department, develop IT policy and SOPs 	2.5%	1 to 2 years
Human Resource Management	<p>i) Introduce modern human resource management practices</p> <p>ii) Institute modular training curriculum for focused development of supervisory and administrative competencies</p>	<p>i) Through ADP Schemes</p> <p>ii) Establishment of training center in line with state of the art training centers of the Customs and Excise, Income Tax etc.</p> <p>iii) Conduct gap analysis Upgrade HRM policies and processes Develop empirical Training Needs Analysis Develop curriculum Outsource trainings</p>	-	1 year
	<ul style="list-style-type: none"> • Introduce Taxpayer education and facilitation service 	<ul style="list-style-type: none"> • Design and operational Tax Campaigns to create awareness and boost voluntary compliance 	-	6 Months
			(PKR 675 M)	

* Subject to risk factor of conducting the survey, revision of Annual Rental Values compatible with market values etc.

Note: All taxes would include Property tax; Professional tax; Motor vehicle tax; Cotton duty; etc.

Annex 6: Board of Revenue Tax Reforms

Reform Priorities

There is consensus within the Board and in the Sindh Government that BOR has to transform into a vibrant and self-reliant service organization to mobilize optimal tax revenue and deliver reliable service to the public. It is believed that to realize this vision, the Board should embark upon policy and administrative reforms aimed at strengthening the tax policy environment; modernizing business processes and physical environment; integrating technology; expanding its virtual outreach; retooling HR competence; and, last but not least, encouraging a service “Value for Money” culture. Furthermore, it is also envisaged that constituents’ and functionaries’ interactions should be minimized through technology interface.

The Operations Reforms Group, BOR, have reason to suggest that review/revision of the policy and regulations governing Registration and Stamps and automation of business processes across the organization offer promising potential for growth in revenue. Other interventions such as human resources training and development, and institutional development are also being considered to complement the administrative and IT interventions. Last but not least, it is suggested that the department must develop a comprehensive strategic plan so that these reforms have an explicit rationality and to ensure continuity of reforms.

An integrated approach to reforms is being envisaged to optimize the benefits. Nevertheless, each wing of the Board will be modernized without compromising its rather independent scope of work. Broadly, reforms are being considered in the following directions:

- a. Administrative – Evidenced-based and holistic tax policy will replace the existing intuitive and fragmented tax policy structure. Model Land Revenue Centers are being developed in the LARMIS project. In addition, it is also planned to establish Model Registration and Stamps Centres (Sub Registrar Offices) across the province.
- b. Automation – Processes across the board will be modernized for a greater focus on service quality, efficiency and effectiveness. This process modernization will move towards a paperless environment and reducing face-to-face interactions. It will be followed by an optimal technology interface to automate front-end and back-end processes including data storage, communication, sharing and reporting across the board. (Automation of land records under the LARMIS project and computerization of settlements and survey records (GIS) is already at an advanced level with the support of the Sindh Government. Automation of Registration and Stamps and computerization of land utilization and Gothabad inventories are being envisaged). Similarly, launch of a web portal is also being envisaged to facilitate title record verification, e-assessments and e-payment of taxes, etc.
- c. HR Competence – It is widely accepted across the board that no reform can be implemented successfully without retooling the HR competence. Efforts at building competence would essentially focus on up-scaling knowledge of the laws and regulations, IT skills, service skills, communication especially written, and team work. It is

imperative that alongside these, competitive career paths and performance-based pay are introduced across the board with a primary focus on rebuilding employees' morale and commitment to the organization. Moreover, recruitment should be linked with position profiles and performance.

Reform Strategies

Intervention	Actions	Timeframe	Revenue Impact
Strategic Planning	Develop strategic vision, goals, objectives and action plan	6 months	
Automation	Land records management is already being computerized under LARMIS project	On-going (70% completed)	Provide a credible and tangible database to place an effective taxation system.
	Computerization of settlements and survey records (GIS) is also progressing	On-going (40% completed)	
	Automate registration process	Pilot in 6 months to one year. Replicate across the province in next one to two years	
	Introduce e-Stamps	Pilot in 6 months to one year. Replicate across the province in next one to two years	
	Computerize land utilization inventory	1 – 2 years	
	Computerize Gothabad inventory	1 – 2 years	
Administrative	Revaluation of “Land Valuation Table” to bring at par with fair market value through the recommendations of the committee, to be constituted of all stakeholders	6 months to one year	20% to 25% -Improvement in quality of public service. -Rationalization of processes resulting into greater transparency and minimization of corruption.
	Establish official stamp vending kiosks at Sub-registrars' offices for pre-assessment and sale of stamps. This will prevent loss and minimize malpractice such as under stamping and sale of counterfeit stamps	1 – 2 years	
	Phase out the licensed stamp vendors to minimize incidence of malpractice, such as sale of counterfeit stamps	1 – 2 years	
	Launch a web portal to facilitate title record verification, e-assessments and e-payment of taxes, etc.	1 – 2 years	

Human Resource Management	Conduct Training Needs Analysis across the cadres	6 months	5% to 10%.
	Develop training curriculum and operationalize training in coordination with the Sindh Civil Services Academy	Next 6 months to one year	-It will complement the sustainability of automation and administrative reforms.
	Rationalize positions' status and develop job descriptions	1 – 2 years	-Bringing about cultural change in line with modern best practices.
	Revisit incentive based compensation	1 – 2 years	
Organization Development	Establish Model Registration and Stamps Centres across the province, equipped with technology and modern physical facilities	Pilot in 6 months to one year. Replicate across the province in next 1 – 2 years	5% to 10%
	Rationalize organizational design and structure	6 months	It will further complement the sustainability of automation and administrative reforms
	Conduct study on franchising sharp end processes of BoR	6 months	

Annex 7: Capacity Building Program for Sindh Tax Administration

Background

The Sindh Tax Administration regime comprises of three Tax Collecting Entities [SRB, ET&N Department, and BOR], and the FD as the focal coordinating body.

Lack of continuing training opportunities; generalized curriculum; disconnected training contents; and, last but not least a culture of complacency have led to obsolescence in the general level of competence. It is about time the general competence level be enhanced to catch up with modern governance systems, information technology and required job knowledge and skills. The need has become more immediate and critical for the success and sustainability of the ongoing administrative and IT led reforms.

Strategic Objectives

- To improve people performance across the cadres;
- To achieve higher level of efficiency, effectiveness and rationality in decisions and actions of the departments.

Strategy

- To inculcate knowledge and skills in Governance, Management, Administration and Information Technology;
- To develop capacity building plans along the career paths;
- To integrate training with placement and promotion decisions.

Proposed Actions

- Develop competency profiles along the career paths;
- Conduct “Training Needs Analysis” by benchmarking the competency profiles;
- Develop department/position specific training curriculum and modules;
- Evolve training assessment framework;
- Train the Trainers [optional].

Implementation

- A “Steering Committee” at the Finance Department will be responsible for planning and oversight of all capacity building initiatives. The committee will have representation of senior officers from all the Revenue Collecting Agencies and two members from academia. It will be chaired by the Finance Secretary or his designate.
- The respective Revenue Collecting Agencies will have primary responsibility for conducting training needs analysis, designing curriculum and training modules, etc.

- In principle it has been agreed that the training programs will be delivered/organized at the Sindh Civil Services Academy.

Annex 8: Details on Tax System in Sindh

SUMMARY OF ASSESSMENT OF KEY ISSUES IN TAXATION IN SINDH

Introduction

Developing countries and countries with economies in transition are currently confronting unsustainable fiscal deficits, unabated debt service charges, and declining external assistance seriously affecting their development process. It would be in their interest to overhaul the strategies of resources mobilization through tax policies that are fair, equitable and create minimal disincentives for economic efficiency, and initiate tax administrative reforms to simplify and rationalize the tax structure. There should be greater emphasis on improving the efficiency and effectiveness of the revenue administration, strengthening the institutional framework, selection of taxes and duties which are administratively feasible and lend to realistic collections, widen the tax base and progressively integrate the “informal” sector into the mainstream of the national economy. In the context of international economic relationships, there should be increased stimulus to finalize bilateral tax treaties, protect the interests of national revenue from the adverse effects of operation of electronic commerce, transfer pricing mechanisms, non-cooperative tax jurisdictions and other tax shelters and secure legitimately due tax revenues from income attributable to the new and innovative financial instruments, but avoid harmful tax competition.

Provincial Tax Scenario

Conventionally, provincial governments were dependent on the federal government for meeting their financial needs. The Sindh Government’s provincial receipts provided for 20% of its resource requirements, while for the remaining 80% of its resource requirements it relied on the federal transfers. Encouragingly, however, the provincial receipts increased by 20% in the year 2012-13, lifting the percentage of provincial receipts vs. total resource requirements to 24%. This is the result of successful implementation of receipts policy at the level of Revenue Collecting Offices (RCO); Drawing & Disbursing Offices (DDO) and substantial performance on the part of the Sindh Revenue Board. Nevertheless, the Sindh Government has to continue relying on the federal government to finance its budgetary outlays through federal transfers as the provincial resource mobilization structure, being predominantly tax driven, has its capacity limitations.

The Government of Sindh is cognizant of the significance of a strategic framework and integrated policies on provincial resource mobilization in the specific context of provincial development expenditure and revenue expense budgets. Taxes have an increased significance in provincial resource mobilization. There is therefore a growing need for a mechanism through which evidence-based policy deliberation and the decision process on taxation strategy in particular and resource mobilization in general, is formalized and strengthened. Furthermore, tax policy is an important component of fiscal policy within the framework of overall economic goals of the government. A detailed review of the existing mix of various taxes is essential for meaningful reforms, both at the levels of tax policy and tax administration to ensure efficiency, equity and efficacy of various taxes.

It is encouraging to note that the Government of Sindh is committed to achieve self-reliance in resource mobilization in the long run. However, generally provincial governments' capacity for financial administration, particularly resource mobilization, is significantly restrained. Developing evidence-based policy directions, and conducting systematic analyses of existing and potential taxes are considered pivotal in redressing the capacity issues.

There was a general consensus among the members of the ORG that provincial receipts have the potential to increase phenomenally even without depending on a corresponding increase in the tax rate. It is therefore imperative that a holistic approach is followed. This would entail building innovative perspectives on provincial tax based revenue mobilization strategies. Though taxes are considered as the most sustainable basis for revenue mobilization, it is pertinent to take cognizance of the dysfunctional effect of higher taxes on economic development and poverty. About 37% of the Pakistani population is living below the poverty line, while another 30% of the population is the 'vulnerable-poor' for they are living just above the poverty line. This cautions the administration in further increasing the tax rates. Therefore it is imperative to focus on achieving higher tax equity, efficiency, integrity and, last but not least, compliance.

Issues facing the Provincial Tax Administration

- a. Reliance on Federal Transfers: Evidence suggest that heavy reliance on federal transfers leads to budget vulnerability of the provincial government, squeezing its capacity to undertake developmental expenses. Furthermore, taxes alone make up most of the provincial receipts. To achieve the objective of self reliance, it is imperative to develop a holistic tax based resource mobilization policy that would allow improving tax revenues as a more sustainable solution.
- b. Evidence-based economic and/or tax data not accessible: Normally data on tax efficiency, equity, and impact is not readily accessible, which hinders the formulation of a rational tax policy. (Even provincial GDP data is not available.) Moreover, the economic values and taxpayers' data used as the basis for assessing different taxes are archaic and need to be updated. This warrants the commissioning of an empirical research facility on a permanent basis.
- c. Annual tax projections are done on incremental basis: Lack of systemic and non-systemic economic and tax data constrains empirical approaches in tax policy and projection decisions. Consultations are done on 'as needed' basis by the Finance Department [FD] with various revenue collecting agencies. However, there is a recognized need for continuous linkage of FD with the RCAs and amongst the agencies themselves to foster even more informed decision making.
- d. Operational ambiguities: The current tax administration is facing multiple issues relating to operational ambiguities that constrain the agencies' tax policy and enforcement capacity. These include duplicate taxation, age old tax exemptions that have lost their rationality in present times, grey areas in terms of tax jurisdictions between the federal government and the provincial tax collecting agencies and sometimes between provincial tax collecting agencies as well.

It is about time the provincial taxation structure is revisited in order to tap potential tax revenues by strengthening both the tax policy and administration process. This clearly entails revisiting tax laws and policy, expanding (diversifying) the tax base, improving exchange equity of various taxes, and creating an enabling work environment⁴. It should also be noted that there is a vacuum in the area of tax policy in the existing setup of provincial financial administration. Hence, it is imperative to formalize the “Tax Reforms Unit”, ideally located within the echelons of the Finance Department. The unit would initially take up matters in coordination with the revenue collecting agencies.

Board of Revenue and Taxes on Land

The Board of Revenue, Sindh (‘the Board’) is the successor of the *defunct* West Pakistan BOR. It was originally constituted under the provisions of the West Pakistan Board of Revenue Act 1967, which subsequent to dissolution of One Unit in 1970, became the Board of Revenue, Sindh. The Board is the controlling authority in all matters connected with administration of revenue collection including land taxes, land revenue and preparation of land records. It is the custodian of the rights of the land holders and is the highest revenue court in the province of Sindh with Appellate/Revisional Jurisdiction against orders of subordinate revenue officers/courts including EDOs (Revenue) and Collectors. All Revenue Courts are subject to the general superintendence and control of the Board of Revenue. The Board itself is subject to the administrative control of the provincial government.

The Board has a mandate to collect various levies such as land tax/agriculture income tax, water rate (*abiana*), local cess, drainage cess and miscellaneous land revenue. Secondly, it is to make arrangements for the application of registration fees and stamp duty such as on agricultural land, urban properties, sale deeds, mortgage deeds, power of attorney (optional), and will deeds under the Registration Act 1908. Thirdly, the Board is to make arrangements to collect stamp duty under the Stamps Act 1899 on both registered and non-registered documents of consideration. Fourthly, it is to make arrangements for the management of land utilization including allotment for consideration and protection against illegal encroachment of land in Sindh province. Finally, the Board is to protect the rights (title) of the land holders and management of records.

The Board thus has dual significance: as a custodian of government land and the rights of land holders, and as the revenue collecting arm of the provincial government. This means it is imperative that the Board be a robust organization to discharge its roles and responsibilities in a reliable, efficient and transparent manner in modern times. The Board’s performance in terms of collection of various government levies is detailed in Annex Tables 1, 2 and 3, and consolidated in Table 4 below:

Annex Table 1: Collection through Stamp Duty, Registration Fee & CVT 2008-2013

Taxes	2008-09	2009-10	2010-11	2011-12	2012-13
	PKR in Millions				
CVT	<i>Was a federal subject</i>		1,907.004	379.312	2,146.272
Stamp Duty	3,946.601	3,597.848	4,274.139	4,765.,544	5,016.207

Registration Fee	595.741	463.495	838.848	994.978	976.004
Total	4,542.342	4,061.343	7,019.991	6,139.834	8,138.483

Source: District Registrar, Board of Revenue

Annex Table 2: Collection through Agro-Based Tax 2008-2013

Taxes	2008-09	2009-10	2010-11	2011-12	2012-13
	PKR in Millions				
Land Tax/A.I.T	321.599	308.365	556.984	317.757	580.638
Water Rate (Abiana)	305.167	244.917	187.903	204.475	190.094
Local Cess	35.50	47.81	43.20	19.29	15.42
Drainage Cess	10.09	14.66	13.26	5.95	3.35
Misc: Land Revenue	1.35	1.46	0.99	0.58	0.26
Total:	482.632	389.768	489.753	350.585	

Annex Table 3: Recovery/ Collection of Revenue through

- (A) RECOVERY OF DIFFERENTIAL AMOUNT THROUGH REGULARIZATION OF LAND UNDER ORDINANCE NO.III OF 2001 &
(B) FRESH ALLOTMENT FOR 99 YEAR LEASES UNDER LAND GRANT POLICY NOTIFIED ON 25-02-2006

Taxes	2008-09	2009-10	2010-11	2011-12	2012-13
	PKR in Millions				
Recovery of Differential Amount	703.106	889.433	384.915	401.374	1,011.301
Fresh Land Allotment Fee for 99 Year Leases	540.578	237.925	289.002	2,445.468	3,394.590
Total :	1,243.684	1,127.358	673.917	2,846.842	4,405.891

Source: Land Utilization Department, Board of Revenue, Sindh

Annex Table 4: Consolidated Summary of Collections (Tables 1 + 2 + 3) 2008-2013

Description	2008-09	2009-10	2010-11	2011-12	2012-13
	PKR in Millions				

Registration Fee, Stamp Duty & CVT	4,557.240	4,484.131	7,019.991	8,139.894	8,138.483
A.I.T/Land Revenue	321.599	308.365	556.984	317.757	580.638
Land Utilization Income	1,243.684	1,127.358	673.917	2,846.842	4,405.891
Grand Total	6,122.523	5,919.854	8,250.892	11,304.493	13,125.012

Annex Table 5: Details of Documents Registered

Description	2008-09	2009-10	2010-11	2011-12	2012-13
No. of Documents Registered	236,667	201,626	248,322	227,266	212,091

Source: District Registrar, Board of Revenue

Issues and Challenges facing the Board

The Board is facing a number of issues and challenges impeding its performance in relation to its duties as custodian of land / landholders rights and its duties as a revenue collecting agency. These are summarized below:

Issues:

- a. Abuse and/or illegitimate occupation of government/public land resources by a few fraudulent individuals and groups;
- b. Vulnerability for illegitimate transfer/acquisition of land titles;
- c. Undervaluation of documents under registration causing significant loss of revenue to the government;
- d. Many documents are not subject to registration, such as rent-agreements, equitable mortgage deeds, and so on, which contributes to limited revenue potentials;
- e. Circulation of counterfeit stamp papers/stamps in the public domain.

Internal Challenges:

- a. Decentralized, dilapidated and permeable land records;
- b. Intuitive and fragmented tax policy, laws and regulations: the century-old original statute (Registration Act, 1908) not updated since its promulgation, hence, it does not fulfil modern day commercial/economic and financial requirements/perspectives/ terminology, and archaic land valuation schedules;
- c. Physical record keeping and manual processes;
- d. Weak coordination across different wings of the Board;
- e. Disintegrated computerization;
- f. Reconciliation of collections is ineffective and inefficient;
- g. Archaic HR competencies and deteriorated physical environment;
- h. Service tenure and morale issues.

External Challenges:

- a. Perception of the Board is generally distorted amongst the constituents;
- b. Public pressure to reduce taxes;
- c. Naïve constituents (executants);
- d. Fraudulent elements in the society;
- e. Pressure groups affecting the Board regulations;
- f. Deteriorated law and order situation;
- g. Weak coordination across different stakeholders.

It is believed that greatest challenge in bringing about successful change and sustained performance improvement in the public sphere is not so much identifying solutions - which are mostly straightforward - as *implementing* them. This was noted by the District Registrar during the Focus Group Discussion.

Registration, Stamps and Evacuee Property Wing

The Registration, Stamps and Evacuee Property Wing of the Board contributes the major portion of revenue. It is headed by a Member. The Registration Unit is headed by the Inspector General Registration, while the Stamps Unit is headed by the Chief Inspector Stamps. Various levies on registration of documents, primarily on authentication and legalization of transfer of interest in land/real estate services, constitute the major stream of revenue of the Board of Revenue. The second major contributor of revenue to the exchequer is sale of stamps.

There is a general consensus at the onset amongst the members of the BOR ORG that consolidation of various levies and revision of base values (i.e. Valuation Table) on transfer of property registration have high revenue growth potential. For instance, the group has reason to claim that levies are constrained merely due to under valuation of the properties recorded in the documents and to assert that the valuation tables of properties need upward revision commensurate with fair market values. Moreover, the group also strongly feels that the existing system of multiple levies on a single transaction needs consolidation, which would augment enforcement and improve taxpayer facilitation.

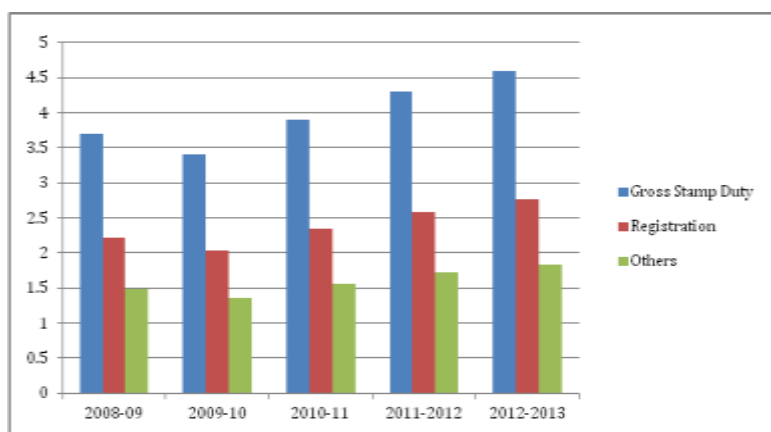
Under the Stamps Act 1899, duty is levied on multiple document-types at different rates, for example, Financial receipts; General affidavits; Certificates of sale; Contracts having financial value; Purchase orders; Conveyance deeds in respect of real estate including gift deeds and lease deeds; General powers of attorney, both with and without consideration.

Table 6 gives a summary of stamp duty collected from FY 2008-09 to FY 2012-13. Gross collections show a consistent rising trend over this period, with the exception of FY 2009-10 when gross collections fell by PKR 0.3 billion. The most likely reason is lowered economic activities, which is evident from the decline in the number of documents presented for registration during the same period. However, the decline was corrected in the year immediately following and since then has shown an increasing performance. The increasing performance has been achieved by BOR despite the fact that overall stamp duties have been reduced over time by the government, which reflects the efficacy of the department. The chart below also presents comparative collection performance.

Annex Table 6: Collection Summary of Stamp Duty FY 2009 - 2013 (in PKR billions)

FY	2008-09	2009-10	2010-11	2011-2012	2012-2013	Total
Gross Stamp Duty	3.7	3.4	3.9	4.3	4.6	19.9
On Registered Documents	2.22	2.04	2.34	2.58	2.76	11.94
Others	1.48	1.36	1.56	1.72	1.84	7.96
Documents registered	236,667 (M)	201,262 (M)	248,322 (M)	227,266 (M)	212,091 (M)	

Note: On average 60% of gross stamp duty is recovered on account of registration and 40% on account of miscellaneous documents



Annex Figure 1: Collection of Stamp Duty 2008 through 2013

A safe estimate made by officials is that about 60% of documents, subject to stamp duty, are registered as per law while the remaining documents are not required to be registered. There are grounds to believe that the undervaluation problem in registered documents mainly stems from the use of real estate valuation tables as a basis of assessing stamp duty in case of property documents. Ironically, these valuation tables do not reflect fair market values of real estate. Nevertheless, the auditors are able to unravel short payment of stamp duty on such documents but only to the extent of difference in value declared in the documents and the value quoted in the tables. However, it is rather difficult to detect short payments in case of documents not required for registration. Mostly the institutional executants pay low stamp duty either by acquiring physical stamp paper/judicial stamps or through franking machines on blank pro-forma documents even though the practice is prohibited in the laws and regulations. This was detected through external audits conducted by the Wing. It is laudable that, subsequently administrative directives were issued to the Superintendent Stamps to stop this practice with effect from September 2013. As a result actual collection figures show an aggregate increase of 15% in stamp duty collection during Sept.–Nov. 2013 over the corresponding period in 2012–2013. A dip in October is being correlated to the usual decline in activities during the month of Muharram ul Haram (see Annex Table 7). However, officials believe that further interventions are needed

to, on the one hand, effectively enforce this directive and, on the other, achieve sustainable impact.

Annex Table 7: Comparison of Stamp Duty Collections

Month	FY 2012-2013	FY 2013-2014
September	412.197	513.808
October	366.421	468.213
November	393.210	404.424
Total	1,171.828	1,386.445

Circulation of counterfeit stamp papers, judicial stamps and even franking impression is yet another major impediment causing shortfall in stamp duty recoveries. While this is certainly a criminal offence, it seems even more difficult to curb. The likely beneficiaries are a few stamp vendors/agents engaged in the malafide practices. Executants in most of the cases are abused for being naïve. Secondly hitherto the officials or deponents had no basis to ascertain its genuineness or otherwise but to rely on the apparent tenor and vendors, respectively. Recently, the department through the Pakistan Security Printing Corporation has started inserting serial numbers and secret bar codes on stamp papers. The serial numbers are given province wise. Officials believe this innovation has provided a basis to check the genuineness of stamp papers. However, they think more needs to be done before the illegal practice can be efficiently and effectively controlled. Again, this seems more doable in case of registered agreements but quite difficult in the case of non-registered documents.

Officials believe that revenue losses to the government on this account are massive. However, these can only be arbitrarily quantified as it is rather impossible to determine the quantum of counterfeit stamps in circulation.

General Issues with Tax Mobilization in Sindh

1. Low revenue mobilization is working as a constraint on improvements to service delivery, public infrastructure and human development in Sindh. Tax policy and tax administration hold several keys to revenue mobilization. In the former domain, lack of evidence based discussion in Sindh has weakened the impetus of reform. In tax administration, a number of steps have been initiated to strengthen and modernize systems but these have yet to reach their full potential. Working on both tax policy and administration will generate synergies which will enhance revenue collection in the province.
2. According to the Constitution sales tax on services comes in the provincial domain, while sales tax on goods falls in the federal domain. Due to the lack of adequate tax collection machinery in the provinces and given the intertwined nature of the tax because of input adjustment, this tax was collected by FBR and then passed on to the provinces. However, Sindh took the initiative to perform this task on its own and created the Sindh Revenue Board (SRB) specifically for this purpose. SRB started its tax collection operations from July 2011. By this time FBR had achieved a high level of automation in the administration of sales tax through its IT arm, PRAL, and the automated system provided the functionality including: e-filing of sales tax returns and real time application of business rules with respect to return filing; recording of sale and purchase invoice level information and its cross-matching with other returns; validation of the return against imports and exports data of Pakistan Customs;

integration of the e-filing system with FBR's registration and Active Taxpayers systems; integration of the e-filing system with FBR/PRAL's payment processing system which allows linking of the return to the payment; and monitoring and management reports.

3. SRB is using the PRAL system on the Application Service Provider model basis. The last item, i.e. monitoring and management reports, has been augmented by its in-house reporting application named R&D. In addition, SRB is now implementing an indigenously developed Show Cause, Order and Recovery application. Sales tax has become the largest tax in Pakistan. More than 50% of FBR collection is through this tax and about 40% of Sindh's own-source collection is through this tax. The coverage and compliance of this tax in the regulated sectors is good and the application of technology through the e-filing portal, payment reconciliation, cross-matching of sales and purchases, and verification of imports and exports is impressive and effective. However, the weak areas are: unregulated sectors which represent a significant share of the GDP, audit and enforcement capacity, and internal knowledge of industry within tax entities particularly SRB. From an IT perspective the biggest challenge is that because of input adjustment, the administration of this tax requires a unified national IT architecture, which is presently being achieved because the provider of the system for all revenue organizations, i.e. Federal Board of Revenue (FBR), SRB, Punjab Revenue Authority (PRA) and Khyber Pakhtunkhwa Revenue Authority is PRAL. However, there are no formal mechanisms in place to ensure architectural harmony in future. SRB has a direction to focus more attention on unregulated sectors and enhance its own capacity to improve the effectiveness of policy making, audit selection and the actual conduct of audit. Moreover, provinces have over a dozen taxes, fees and cess and as such a local platform to harmonize tax collection has to be considered in addition to PRAL to ensure an efficient and robust tax collection system. PRAL may continue to be utilized in cases of overlap taxes like services tax or infrastructure cess, but for taxes which are not linked to federal collection, e.g. motor vehicle or property tax and other land related taxes, a local centralized collection system has to be established for better tax and data collection efficiency.
4. In property tax, several areas require attention to make it revenue productive. The current mismatch between tax incidence and local service incidence, is one reason for low collections under this tax. Nearly all dimensions of tax administration are weak at present. In a city with an estimated population of 20 million, only 0.8 million units are registered taxpayers due to large scale exemptions as well as weak identification of taxpayers. The base has eroded over the last 12 years as the rates are captured inside a system of specific location factors. Collection efficiency is currently low at 22%. ET&N is making efforts to strengthen administration and realize the full revenue potential of this tax. Only recently through a major effort, the property register has been computerized and demand notices (*challans*) are being planned to be served in one division. However, the system is quite embryonic and does not cover the full functionality required for a system of this nature. No progress has been made on conducting a new survey, which is required to be done every five years, and to update the Annual Rental Values. Physical infrastructure in the field offices is dilapidated and the computerized system is rudimentary. This tax is a clear candidate for a strong IT-based intervention, supported by policy reform and subsequent devolution of the tax to local governments. Improvement in the management and collection of this tax will bring sizable growth in revenue through some very simple measures in the very short term, and thus provide accountability for local services.

5. Under BOR, transfer of property taxes are administered all over the province. More than 200,000 immovable property registrations are done under the aegis of BOR per year in Sindh. The fee is collected at the registrar/sub-registrar's office through cash or pay order, which is then deposited in the treasury or bank. There are 89 Circle offices in Sindh which are the nerve centres of the registration event. Nineteen of these offices are presently on the newly rolled out registration recording system, which is hosted centrally and is linked through the Internet to the Circle Offices. The system records the basic registration information adequately but does not have elaborate workflow capability to automate the Circle Offices which are usually in very dilapidated condition. At the same time, CVT and Capital Gains Tax are collected. At present, there is no IT-based integration with the Land Record System, even though the principle is firmly enforced in Sindh that registration must always be done before mutation. Poor physical conditions at the Circle Offices are compounded by extended hours of power disruption at many locations. Reduction in the number of documents under the ambit of stamp duty, simplification of tax structure, computer generated stamp papers, and in the first instance, financial instruments to be implemented through the banking system, and online submission and finalization of registration, will increase revenue as well as facilitate taxpayers.

Core Challenges Facing the Provincial Tax Agencies

In discussions with various stakeholders, especially the management of the Provincial Tax Agencies and senior officers of the Finance Department, GoS, it was possible to identify numerous challenges faced by these organizations in their efforts to increase the provincial tax revenue base and volume. An analysis of the challenges has been done to determine the respective operational impact, underlying factors and revenue risk. The grid below presents the most significant challenges facing the tax collecting agencies:

Challenges	Operational Impact	Underlying Factors	Revenue Risk *
Enforcement of sales tax on unorganized sector in Sindh	Loss of potential revenue mobilization on account of weak enforcement on sales tax on services	<ul style="list-style-type: none"> ✓ Weak tax education/communication program ✓ Weak enforcement structure ✓ Inadequate specialized training of the staff ✓ lack of reliable and valid data 	Moderate to High
Assessment of Registration Fee, Stamp Duty and CVT	Loss of revenue mobilization on account of	<ul style="list-style-type: none"> ✓ A weak system of property valuation. No process in place to 	Moderate to High

on the basis of real transaction value in transfer of property transactions	Registration fee, Stamp duty, Capital value tax, and Gains tax	ascertain fair market value and revise valuation tables ✓ Job description of the concerned officers does not require ascertaining fair market value of the subject property	
Confirmation of the genuineness of the “holder in due course” at the time of registering/transferring title of the properties	Interest of the legitimate owner/buyer is jeopardized	✓ Publication in newspapers is not sufficient ✓ No data trails for ascertaining genuineness of current ownership of property	Low to Moderate
Assessment of property tax on the basis of fair market rental value of the subject property	Loss of revenue mobilization on account of property tax	✓ Under quoted property rental valuation tables ✓ No process in place to ascertain fair rental value of the subject property other than tables ✓ Job description of the concerned officers does not require ascertaining fair rental value of the subject property	Moderate to High
Efficient recovery of Property tax on 100% properties taxable	Delay in or loss of revenue mobilization on	✓ Tax administration takes a soft stance on defaulters	Moderate to High

under the Act and identification of new taxable properties through surveys	account of property tax	<ul style="list-style-type: none"> ✓ Concerned officers are not empowered and do not have resources to enforce tax recovery from willful defaulters ✓ Unless targets entail 100% recovery, these will continue to cause complacency 	
Tracking current status of the property i.e. either commercial or residential for the purpose of levying property tax	Loss of revenue mobilization on account of property tax	<ul style="list-style-type: none"> ✓ Heavy reliance on inspectors in the field ✓ Lack of coordination/data sharing with other agencies such as KESC, SSGC, etc. 	Moderate to High
Property Tax assessment, payment and registration of property transfer is cumbersome due to manual procedures.	Time consuming and cumbersome for taxpayers. Prone to taxpayer harassment	<ul style="list-style-type: none"> ✓ Manual procedures ✓ Absence of data trails/linkages of property ✓ Absence of taxpayers facilitation 	Low to Moderate
Reconciliation of Revenue receipts at present assessed and deposited through manual procedures	Delay in reporting revenue receipts fee generation of MIS reports	Cumbersome manual procedures in vogue both at the NBP and Treasury of GoS	Moderate

In view of the above noted challenges, it can be stated that sustainable growth in provincial tax revenue can only come about through strategic and operational reforms. Strategic interventions include institutional development of the tax collecting agencies, training and development of tax administrators, linking the data banks of all agencies through automation through improved IT processes, establishing formal communication between tax administration and taxpayers,

promoting affirmative tax culture and education, and lastly improving coordination between tax collection agencies for harmonized tax planning and administration.

SRB perceives expansion of the sales tax net into other sectors from the perspective of cost of collection. Sectors requiring higher tax efforts may need to be included for economic efficiency and equity, which in turn impinges upon tax compliance. Timely assessments will need to be carried out of additional demands on SRB and its systems that will come from expansion into restaurants, property development, construction and contractual services. Personnel management systems also need to be uniquely designed to serve the needs of a well performing tax collection agency. The present rush towards civil service systems may marginalize performance and set up perverse incentives for long-term career paths. A study of sales tax policy and tax administration in Sindh will serve the purpose of keeping focus on essential areas of reform.

ET&N and BOR have workforces with weak skills. In some cases, the basic qualifications are reported to be weak though no accurate assessments are available. Introduction of IT-based business processes will require reskilling, without which the systems may not yield their potential gains in revenue collection. In both agencies, early on, studies of tax policy and administration will document the costs of exemptions, losses due to weak administration, and identify systemic areas for further reform. Evidence generated by such studies will help maintain focus on priority reforms. At the same time, institutional assessment of both agencies can help develop a medium-term change management strategy which will chart out an implementation plan without risking resistance to change.

The lack of coordination among the three tax agencies may continue if organizational integration is not achieved. The effects of this could be reduced by achieving functional integration by linking databases and synergizing collection systems. At present there is evidence of low tax morale due to a combination of several factors: perceptions that taxation is not equitable; and high compliance costs due to underdeveloped systems. Low tax morale can be countered by specific interventions for taxpayer education and facilitation.

Annex 9: Information on Tax Forum

“Taxation Forum”



KARACHI: Murad Ali Shah, Adviser to Chief Minister Sindh on Finance, addresses the Taxation Forum on Tuesday—Online

Source: http://epaper.dawn.com/?page=26_02_2014_001

The Finance Department, Government of Sindh, convened a day long forum on Sindh Tax Revenue Mobilization Plan (STRMP) on February 25, 2014. It was organized by the Institute of Business Administration (IBA) under the sponsorship of World Bank. Business community, Tax practitioners, individual Tax payers and members from the Academia joined the Tax Collectors in the forum.

Objective of the forum was to disseminate the draft STRMP and to solicit feedback from the delegates. Mr. Murad Ali Shah, Adviser to Chief Minister for Finance and Energy Chaired the Panel. Others on the panel included Mr. Sohail Rajput, Finance Secretary, Mr. Sher Shah Khan, Senior Public Sector Specialists, the World Bank, Mr. Shabbar Zaidi, Partner A.F. Fergusson & Co. and Dr. Prof Qazi Masood, Director Economic and Business Research Centre IBA.

Mr. Sohail Rajput welcomed the Guest of Honor and other distinguished guest and delegates to the forum. Mr. Murad Ali Shah, Adviser to the Chief Minister Sindh, in his inaugural address reiterated his Government's stance on socio economic development of the People of Sindh. In this context he emphasized the importance of revenue generation at the provincial level as a guaranteed basis for sustainable development and assured continued support to the Finance Department and three Tax Collecting Agencies in their pursuits for increasing tax revenue. However, he wished that new taxes should not burden the common man or inhibit economic activity. At the end he expressed his Government's commitment to raise taxes to the optimum so that GoS could ensure provisions of its own resources to finance its development expenditure in future.

Mr. Sher Shah Khan, appreciated the GoS led tax reforms initiative through a holistic plan citing it as a pioneering effort of its kind at provincial government level in Pakistan. Acknowledging the good performance of the SRB he highlighted the challenge to sustain the performance for the revenue targets set by GoS. In this regard he assured of WB's continued support to Government led reforms. He expressed his desire and hope that participants of the Forum will make substantive contribution by proposing improvements in the Plan. Dr. Professor Qazi Masood thanked the Guests and delegates for participating the forum. He highlighted the potential role of academia in carrying out research in the areas identified by the government for taking informed decisions in the realm of tax policy. He said academia could assist the Government in preparing policy papers on tax reforms. Furthermore, he said the academia could also provide strong support in the capacity building of tax collectors. He argued that this would pave way for evidence based tax policy reforms, higher productivity and efficiency, and last but not the least lowering the cost of compliance.

Mr. Sohail Rajput, Finance Secretary GoS made an extensive presentation on reform initiatives of the Finance Department. Mr. Tasfeen K. Niaz, Chairman Sindh Revenue Board, Mr. Shoaib Siddiqui, DG Excise Taxation and Narcotics Department, Mr. Zulfikar Ali Shah Member Board of Revenue, and Ms. Iffat, Director Enforcement, Sindh Public Procurement Regulatory Authority made elaborate presentations on the reform initiatives being planned at their respective organizations. Each presentation was followed by a QA session in which the delegates enthusiastically raised pertinent questions and sought clarifications from the presenters.

Mr. Sohail Rajput spoke on the significance of the efficiency of Provincial Taxation in the context of emerging Provincial Public Finance Management Regime in Sindh Province. He then discussed various initiatives taken at the Finance Department to realize optimal tax potentials in the province. A few major initiatives include formation of Tax Reforms Unit at the Finance Department, Focus on developing Medium Term Budgeting Framework, and last but not the least improvement of budgetary process along the seven-point criteria of the World Bank. He acknowledged the guidance and support of the Government in his efforts. He made an estimated increase in gross provincial taxes to 200 Billion by end of three year period.

SRB Reforms Plan Presentation

Mr. Tashfeen K. Niaz presented a development case for the reforms at Sindh Revenue Board. He envisaged an overall increase in Sales Tax on Services to PKR 100 Billion in three years' time. Later he spelt out SRB strategy. He said SRB aimed to rigorously follow a three pronged strategy that includes expanding the tax base, improving human resource capacity and following up rigorously with the already registered but inactive tax payers. He emphasized the need for conducting sectorial research. See appendix (b)

Excise, Taxation and Narcotics Reforms Plan Presentation

Mr. Shoaib Ahmed Siddiqui discussed in detail the potentials for increasing tax revenues at the Excise, Taxation and Narcotics Department. He began by underlining the five year growth of 255% achieved by the Department in the past. He argued that there was potential for increasing tax revenues in Property Taxation by 200% and Professional Taxation by 150% subsequent to the envisaged reforms. Main focus of the department would be on revision of PAR Valuation Tables to reflect current fair market based rental values of the properties and subsequently rationalization of Assessment to Tax ratio, and updating of the database of units subject to professional tax. The department also envisaged improvement in tax enforcement and facilitation through continually upgrading the institutional and employees capacity. He unveiled Departments initiative of establishing SWIFT Tax Facilitation Centres across the province and launching of Department's portal for eAssessments and ePayments. Going further, he emphasized upon establishing directorates of Information Technology, and Internal Audit & Accounts. Furthermore, he underlined the need for forging online linkage of the Department with National Bank of Pakistan, Treasury, and Accountant General Sindh Office for real time reconciliation. See appendix (c)

Board of Revenue Reforms Plan Presentation

Mr. Zulfikar Ali Shah envisioned rejuvenating the lost legacy of the Board of Revenue and committed to make it a lead tax generating arm of the GoS. He emphasized on the need for strategic integration of various functions within the Board, establishment of integrated e-Environment both internally and across the stakeholders, and last but not the least enhancing the services standards. He stressed the strategic need for creating electronic records of the land as the basis for levying taxes more efficiently and accurately. In this regard he updated the delegates on the progress made so far on LARMIS project. He explained department's vision of computerization of Property Registration and Stamp processes as yet another important step towards enhancing tax collections as well as improving tax payer facilitation. He cited international examples to support his argument that automation of land and other relevant records resulted in substantial growth of revenues. He contemplated an overall growth of 100% subsequent to the reforms cited above. See appendix (d)

Sindh Public Procurement Regulatory Authority Reforms Plan Presentation

Ms. Iffat briefly presented reforms agenda of Sindh Public Procurement Regulatory Authority. She emphasized upon the need for instilling three pronged objectives i.e. Value for Money, Efficiency and Transparency. She highlighted the need for strengthening the performance of SPPRA through establishing additional units within SPPRA as per its mandate, such as "Process Assurance" and "Quality Control" units. Furthermore, she made an argument for training the officials at the Authority and Procuring Agency.

Public Financial Management Reforms Plan Presentation

Towards the close, Mr. Sohail Rajput invited Mr. Musharraf Rasul Cyan, an International Tax Expert, to share his perspective on taxation. Mr. Cyan thanked for the opportunity and briefly spoke on the conceptual dimensions of taxation. He informed the delegates that in the International World Taxes are a mandatory liability of every citizen. He further said that standard practice in the international world is that Governments prepare estimates of their development and recurring expenditures, which then becomes the basis to project the demand for taxation in any particular period. However, he cautioned that while levying taxes the collectors must ensure horizontal and vertical equity and efficiency, for without this the legitimacy of taxes could always be rightly challenged by the citizens. He also suggested that to improve voluntary compliance it was imperative that cost of compliance must be minimized from the tax payers' perspective and transparency in the system must be ensured. He also talked about weighing the cost of collecting a tax and the revenue potential therein in order to make informed decision on the viability of a particular tax.

Mr. Shabbar Zaidi spoke at length about challenges facing the Government and Tax Collecting Agencies and made suggestive comments. He argued that the cardinal principle of taxation is that taxes should be collected by the custodians of assets themselves. However, he said in the current tax regime there is a mismatch of the assets' custodianship and collection of taxes. He further argued that data relating to the assets, their fair value and ownership is archaic hence levying taxes is fundamentally faltered and argued in support of consolidating and validating the

assets records as a first step. He further said that all the levies collected by the Government do not fall under the “Taxes”, some are user charges and some are fee. He therefore emphasized the need for clarity on this for more informed policy decisions. At the end, he acknowledged and appreciated that this was for the first time that he is witnessing a gathering of Tax Collectors, Tax Payers and Academia joining hands and discussing the future of taxation regime. He said this harmony would *Insha-Allah* go a long way in creating an equitable tax culture in the province.

The Honorable Chief Minister Sindh wrapped up the Forum by expressing thanks to the participants for their useful inputs and expressed his delight at the prospect of enhanced revenue collection as a result of envisaged reforms. He mentioned that commitment to reforms and reiterated the continued support from the Government.

Officials and delegates had this opinion in common that the objectives of the forum were optimally there was a political will to implement the proposed reform agenda. He also shared his desire to continue similar interactions between the tax collectors and the tax payers in the future.