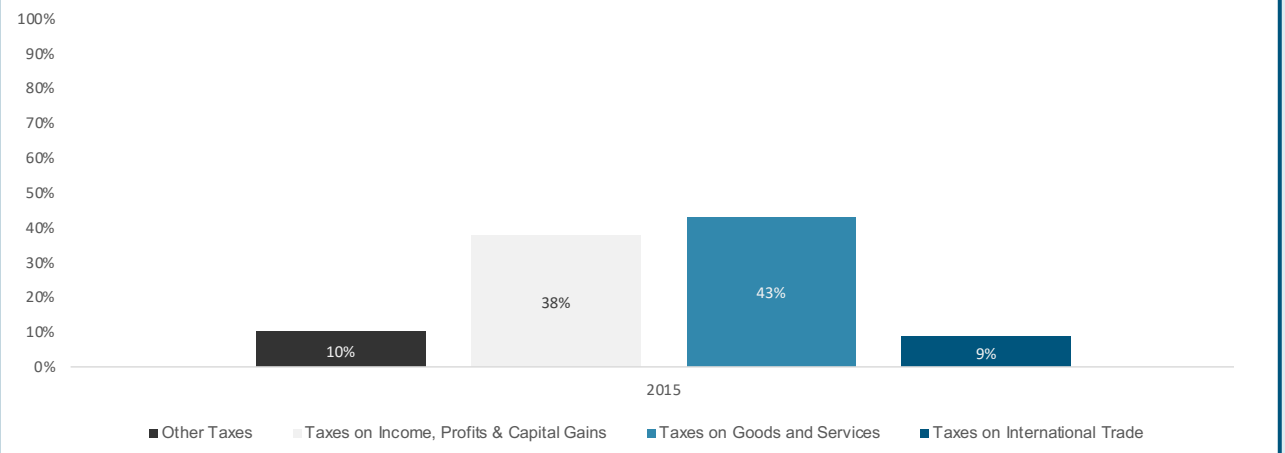
Addis Tax Initiative

Stepping up domestic revenue mobilisation

Pakistan

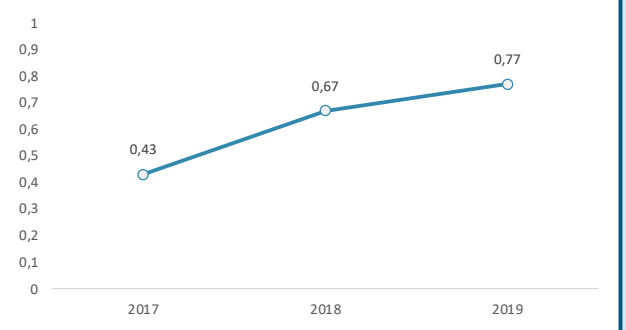
Tax revenue by source



Source: GRD (ICTD-UNU-Wider). The 2019 ATI Monitoring Report covers revenue from four core tax sources of ATI members (i.e. tax es on incomes, profits, and capital gains; taxes on goods and services; taxes on international trade and transactions; other taxes). Revenue from social security contributions, which are sometimes reported as part of the tax-to-GDP ratio, is not included.

Commitment to Reducing Inequality Index (CRI)

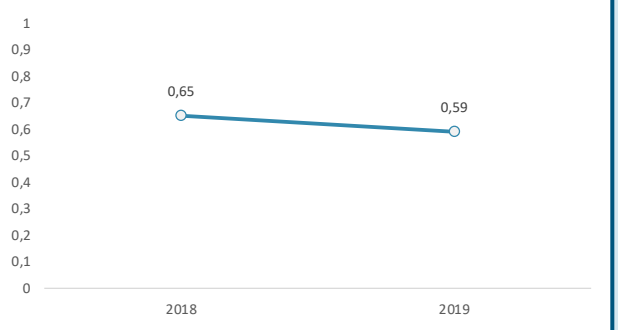
Progressivity of Tax Structure Score



Scale of zero (least progressive) to 1.0 (most progressive).

Source: Oxfam international, the Commitment to Reducing Inequality Index

Impact of Tax on Inequality



Calculated by multiplying the total revenue collected from each form of taxation as a share of GDP by a standard global coefficient for each tax that predicts its impact on the income Gini index. The results for all taxes are then summed. On a scale from 0 to 1, the country with the largest decrease in the value of the Gini coefficient as a result of this tax revenue scores a maximum of 1.0

Source: Oxfam international, the Commitment to Reducing Inequality Index

Recent reform steps and outlook

Between July 2019 and April 2021, there had been a 19% increase in domestic tax revenue. This progress came as a result of the following changes:

- Increased digitisation of revenue mobilisation systems and processes, including tax registration, refund and exemption applications, as well as audits and assessments;
- Broadening the tax base allowed for a rise in the number of taxpayers;
- Pakistan's Federal Bank of Revenue (FBR) developed new protocols for capturing relevant data whilst also ensuring non-residents and their permanent establishments were paid as required; and
- Development of Trace and Track rules in supply chains.

Progress achieved in 2019

During 2019, Pakistan has been able to automate several tax processes, which reduced tax bureaucracy. The Pakistan government introduced new tax-oriented subdivisions in the FBR and across multiple regions to facilitate effective and reliable tax administration. The Large Tax Payers Office (LTPO) and the Office of Chief's Inland Revenue – Analysis Unit were created to effectively manage high turnover revenues and develop evidence-based analyses and indicators to inform decision-making. The responsibility for collecting large taxes was reallocated from Regional Tax Offices to the LTPO, which facilitated effective auditing and enforcement of tax policies. The government also made amendments to relevant fiscal laws to rationalise tax rates and exemptions, and placed greater emphasis on internal auditing and inspections to ensure coherence and compliance with fiscal laws.

Ensuring policy coherence for development

The Pakistani government has established inter-departmental collaboration between various federal and provincial offices to ensure effective coordination of tax policies and regulations. In addition to the LTPO and Inland Revenue tax Units, the centralised Ministry of Finance created the Financial Monitoring Unit (FMU) to ensure dissemination of information across governmental agencies. Pakistan has long established the necessary legislative policies to tackle illicit financial activity, such as the Foreign Exchange Regulation Act of 1947 and the Anti-Money Laundering Act of 2010.

Pakistan has been an active participant in several international tax cooperation platforms and has committed to adopting and implementing international tax standards and agreements. As a member of the Global Forum, they have ratified the Multilateral Competent Authority Agreement of Administrative Assistance in Tax Matters. They have also signed the Multilateral Competent Authority Agreements on Exchange of Financial Accounts Information and Country-by-Country Reporting. Thereby, ensuring coherence with international tax transparency and reporting standards.

Pakistan provides tax credits on investments related to shares, health insurance, job creation by manufacturers, graduate employers and newly-established industrial undertakings. Pakistan is also updating its double taxation agreements, in order to align them with the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting's (MLI) actions and provisions.