Tax Expenditure Report (Pakistan)

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ATI follow-up Technical Meeting on Tax Expenditures (TEs) for Asia, Kathmandu

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Scheme of Presentation

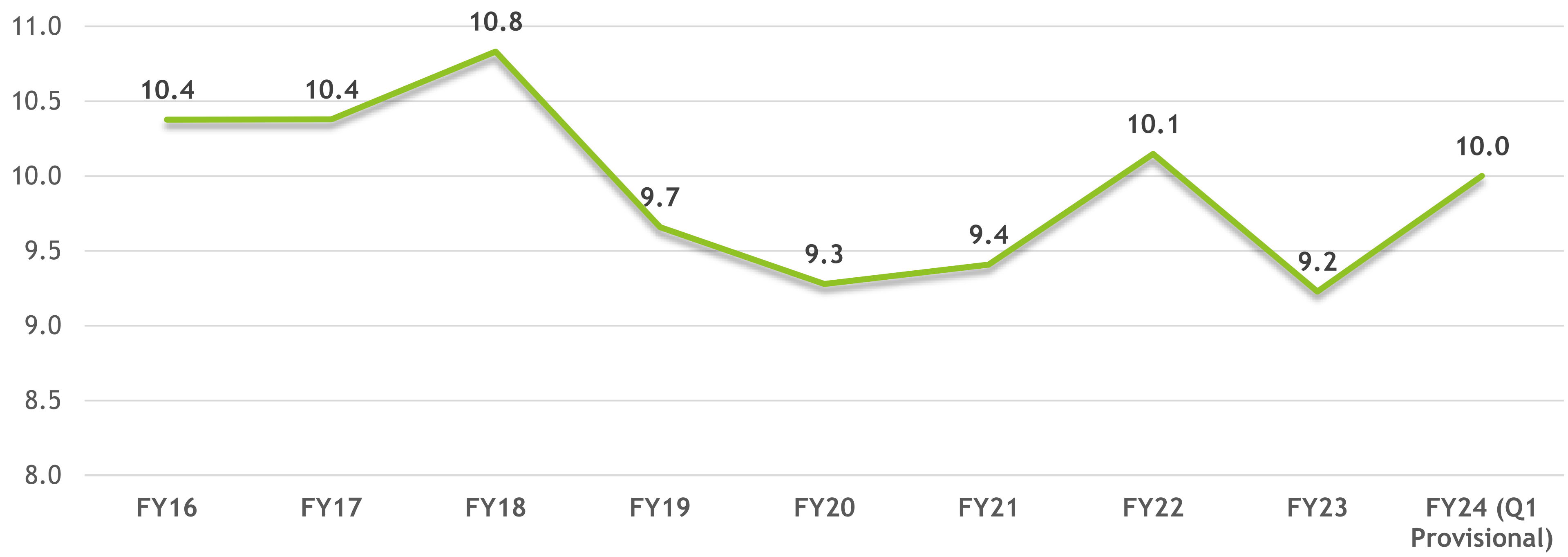
- Introduction
- Pakistan Tax Administration
- Methodology/Reporting/Explanations
- Pakistan TE Trends
- Pakistan Vs. Rest of the World
- Contribution

Introduction

Population	Million	231
GDP	Billion (Pak Rs)	84,069
	US$ Billion	374
Per Capita Income	(Pak Rs)	385,318
	US$	1,554

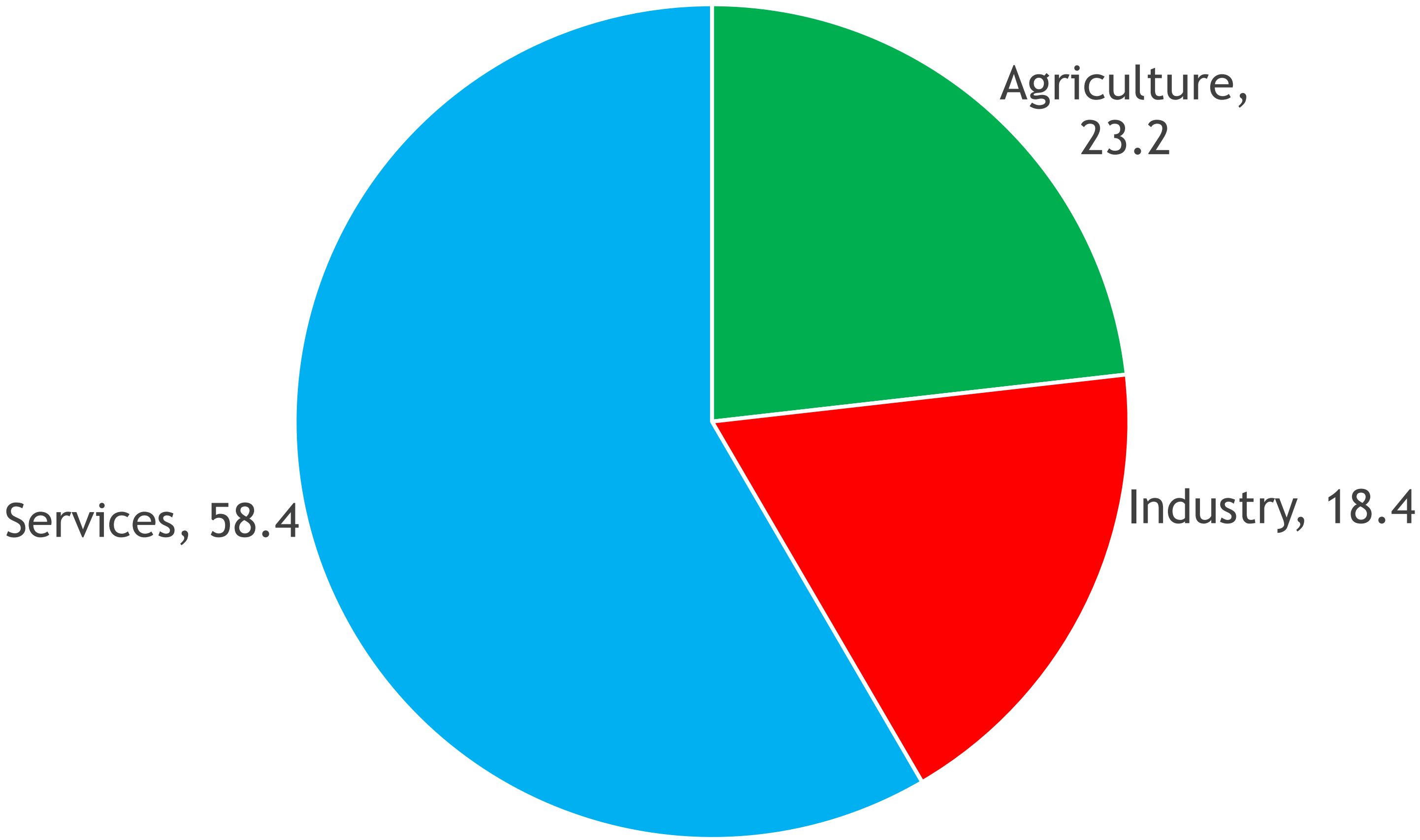
Source: Pakistan Economic Survey 2022-23

Tax-GDP Ratio



Pakistan Economy FY2023

(Sectoral Share %)



Source: Pakistan Economic Survey 2022-23

Tax Administration

- **Federal Board of Revenue (FBR) collects federal taxes:** (Share in National Tax Revenues 90%)
  - **Inland Taxes:** i. Income Tax ii. Sales Tax iii. Federal Excise Duty
  - **Cross Border Taxes:** Customs Duty

- **Provincial Revenue Authorities/Boards:**

  [GST on services, excise, property, motor vehicle tax etc.]

- **Local Bodies:**

  [stamps, registration, estate, gift etc.]

Reporting

- "Public Finance Management Act 2019" requires the Federal Government to lay a statement of estimated tax expenditure of the Federal Government before the Parliament every year, as part of the Finance Bill
- First report was prepared in FY2020
- Directorate General of Revenue Analysis is responsible for preparing TER

Rationale of TE

- Promote research and academic activities etc.
- Relief in emergencies
- To protect the low income groups
- Uplift weaker/infant industries/segments etc.

Methodology/Explanations

- "Revenue Forgone" Approach to estimate the tax expenditure under **Tax Laws:**

  Income Tax Ordinance 2001

  Sales Tax Act 1990

  Customs Act 1969

- **Period/Data**: July-June (Fiscal Year)
- Income Tax Returns' data and Third-Party data taking the legislative rates available in various schedules as the benchmark rates
- **Sales Tax expenditure** is based on data retrieved from Sales Tax Returns
- **Customs Duty expenditure** is calculated based on the basis of Goods Declaration data of imports
- TER doesn't include Provincial TE

Revenue Forgone method quantifies the direct ex-post revenue loss associated with the specific provision relative to the tax rates. The difference between the actual tax paid and the actual amount due to be paid, had there been no exemptions, constitutes the tax revenue foregone or tax expenditure

Contd….

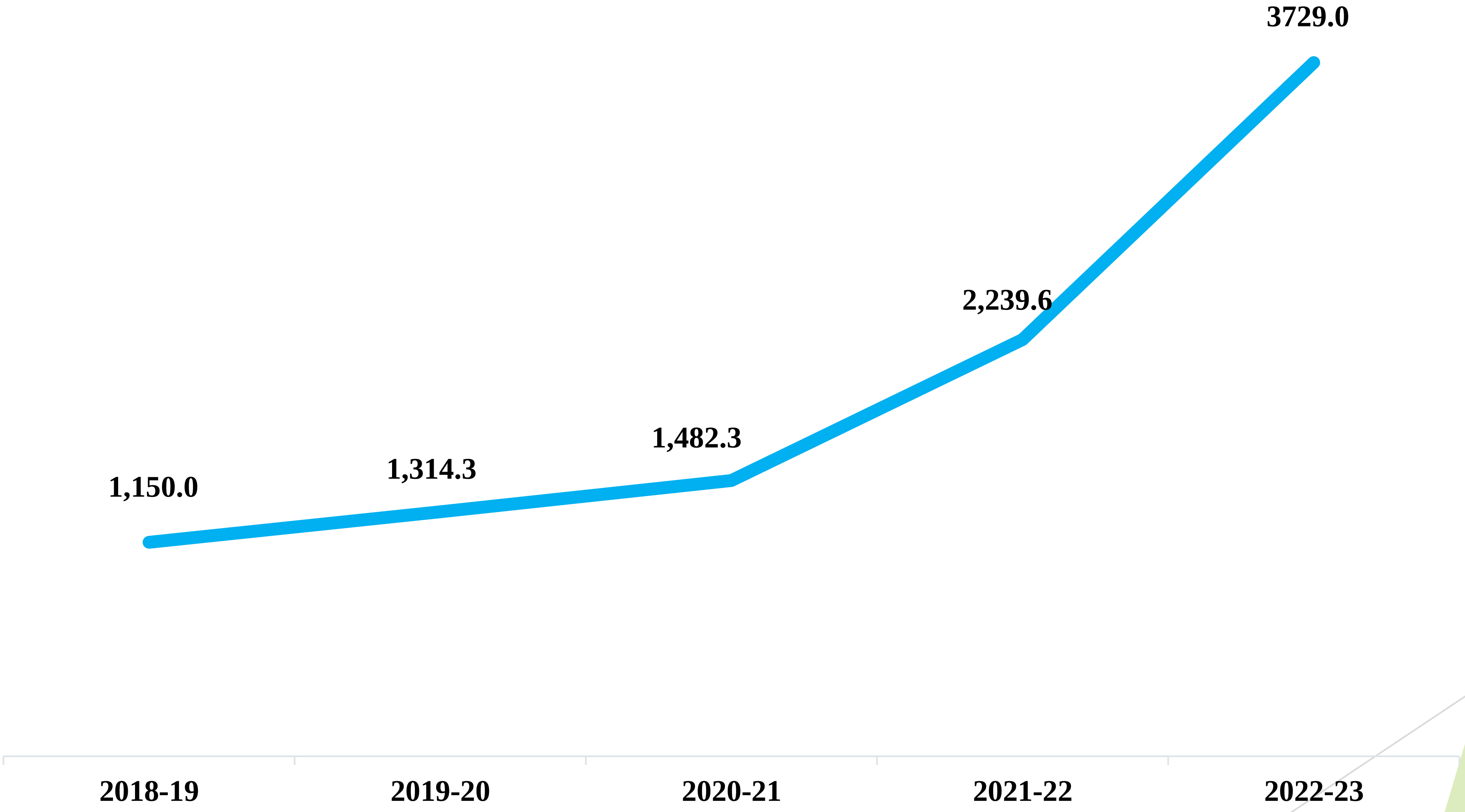
- **Behavioral responses:** Tax Expenditure estimates are static, do not incorporate any behavioral responses
- **Procedural Clauses** that offer exemption from certain withholding provisions are not to be considered tax expenditure
- **Structural Exclusions & Minimum Thresholds** have not been included for computation of tax expenditure
- *Examples: Minimum income threshold, agriculture income, international agreements, diplomats, UN organizations, Federal, Provincial, local governments and all public sector organizations holding FTN*
- TE arising from FTAs, PTAs and other bilateral agreements are taken as expenditure in the TER Pakistan

Contd….

- **Subordinate Legislation:** In specific circumstances, the government issues policy directives to provide relief/incentives to a specific sector or general public, for which FBR issues Regulatory Orders. Tax expenditure incurred under these subordinate legislations are included in TER report
- Income tax Corporate benchmark rate is taken at 39% for the banking companies and average rate of 24.5% for all other non-banking companies (including small and medium enterprises and other companies)
- Statutory rates of Customs Duty (CD), Regulatory Duty (RD), and Additional Customs Duty (ACD) have been taken as benchmark rates. Regulatory duties and Additional Customs duties levied through SROs were of temporary nature have also been taken as deviations from the benchmark
- In case of reduced rates, the Sales Tax expenditure is calculated by taking the difference of the Sales tax receivable according to the benchmark rate and the actual amount of Sales Tax received under the reduced rate.

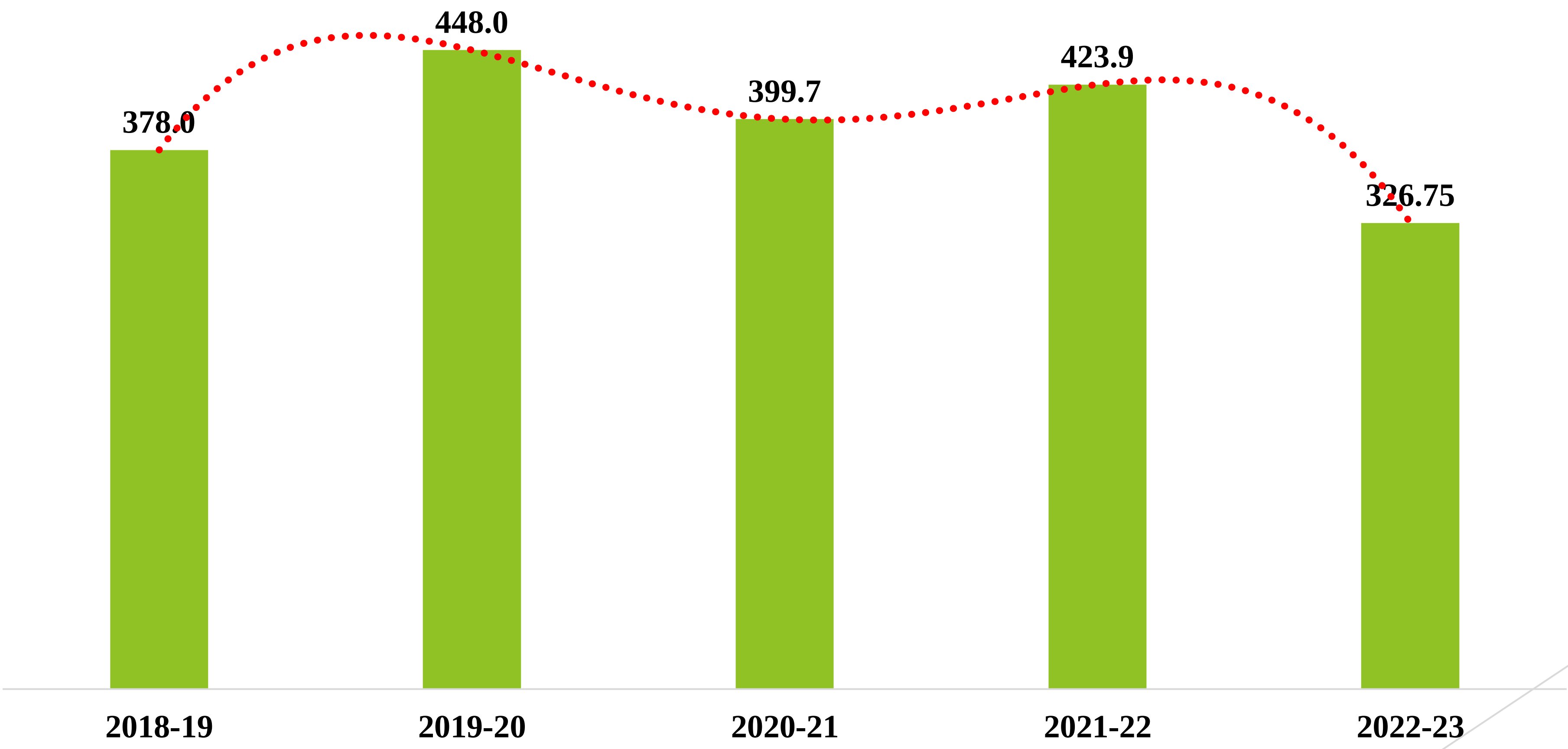
Five Year TE Trend

(Pak Rs. Billion)



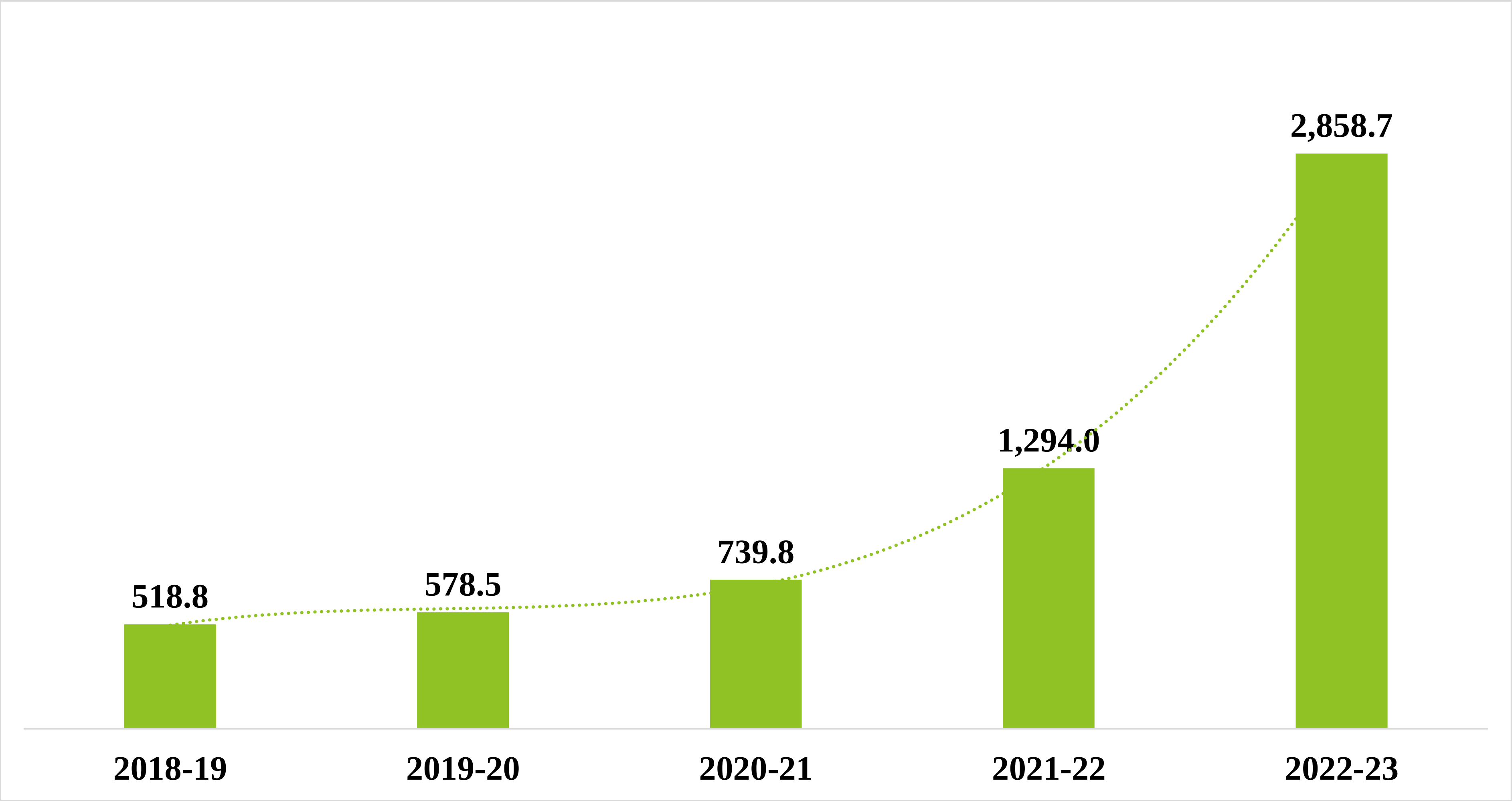
Income Tax Expenditure

(Pak Rs. Billion)



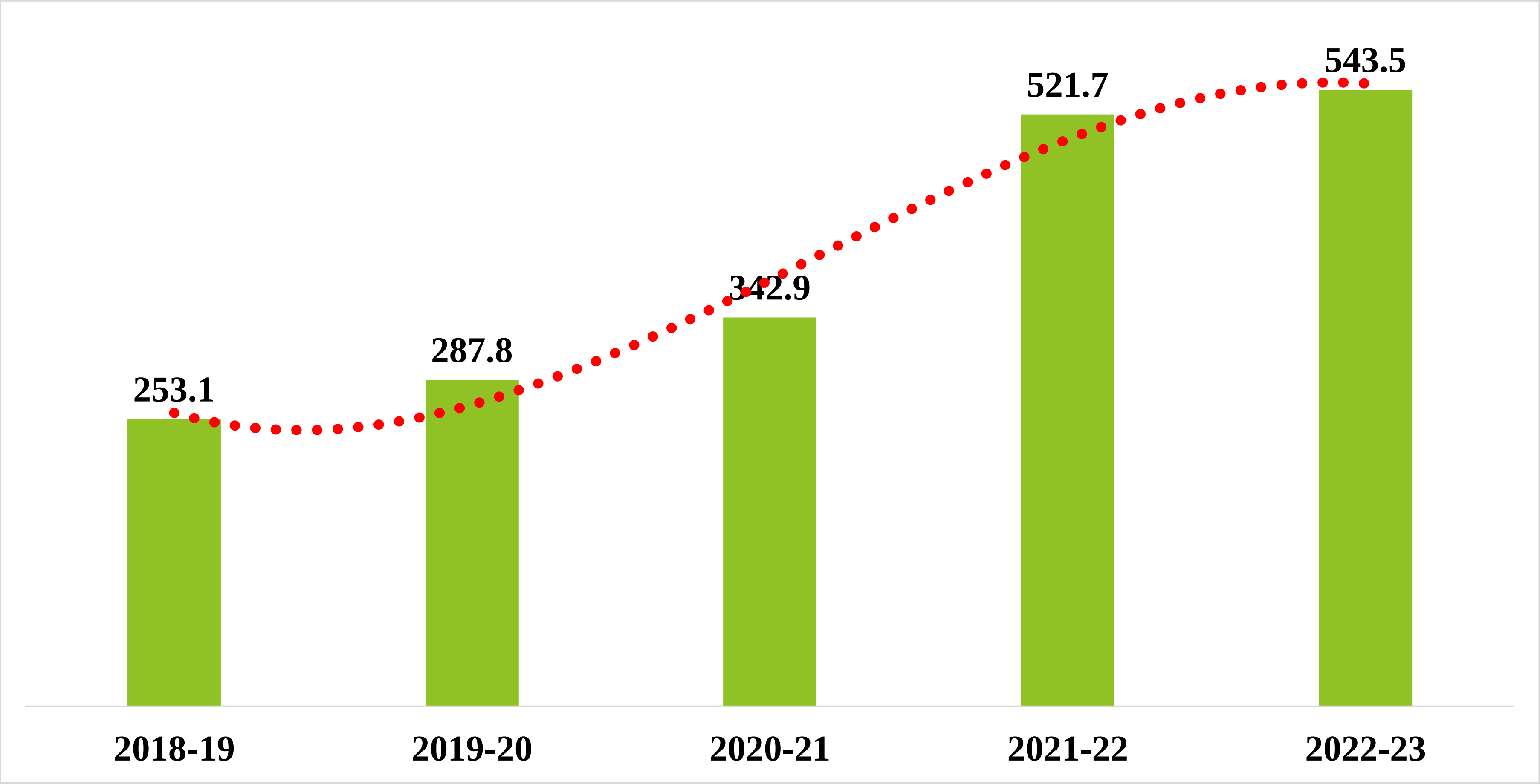
Sales Tax Expenditures

(Pak Rs. Billion)



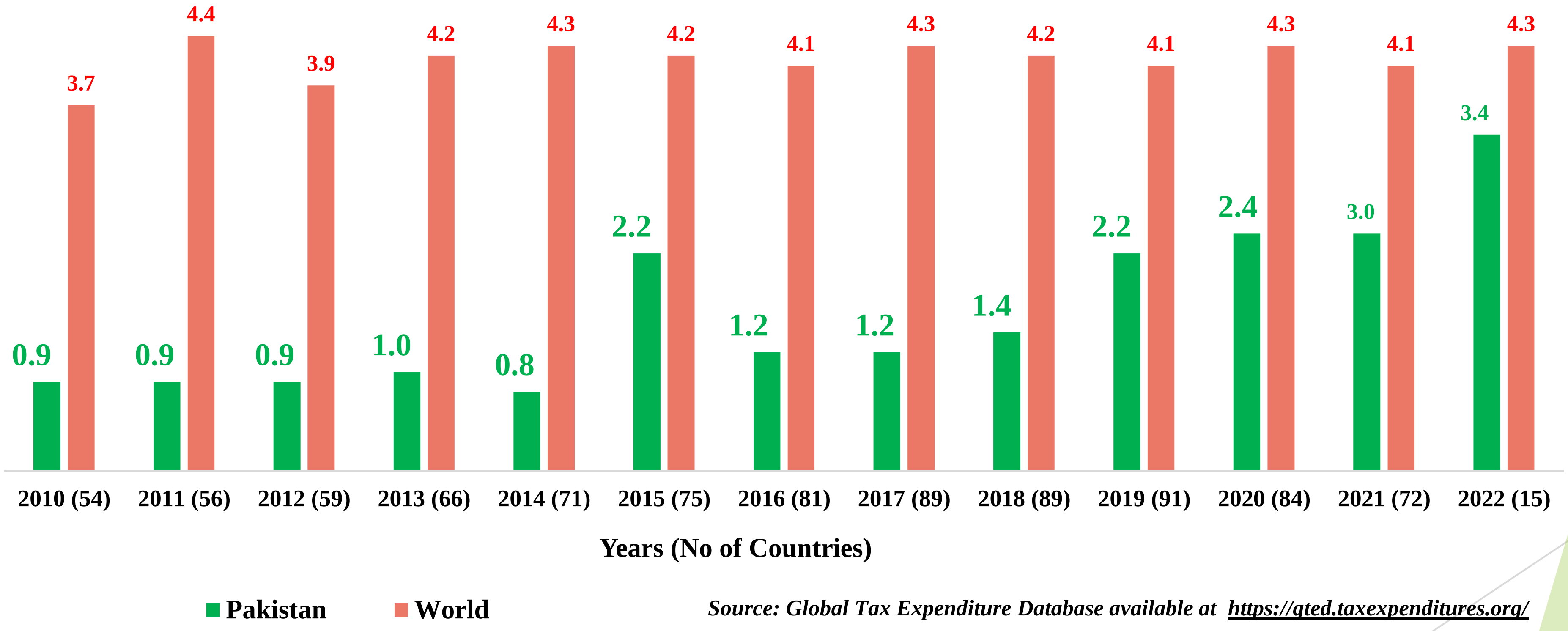
Customs Duty Tax Expenditures

(Pak Rs. Billion)



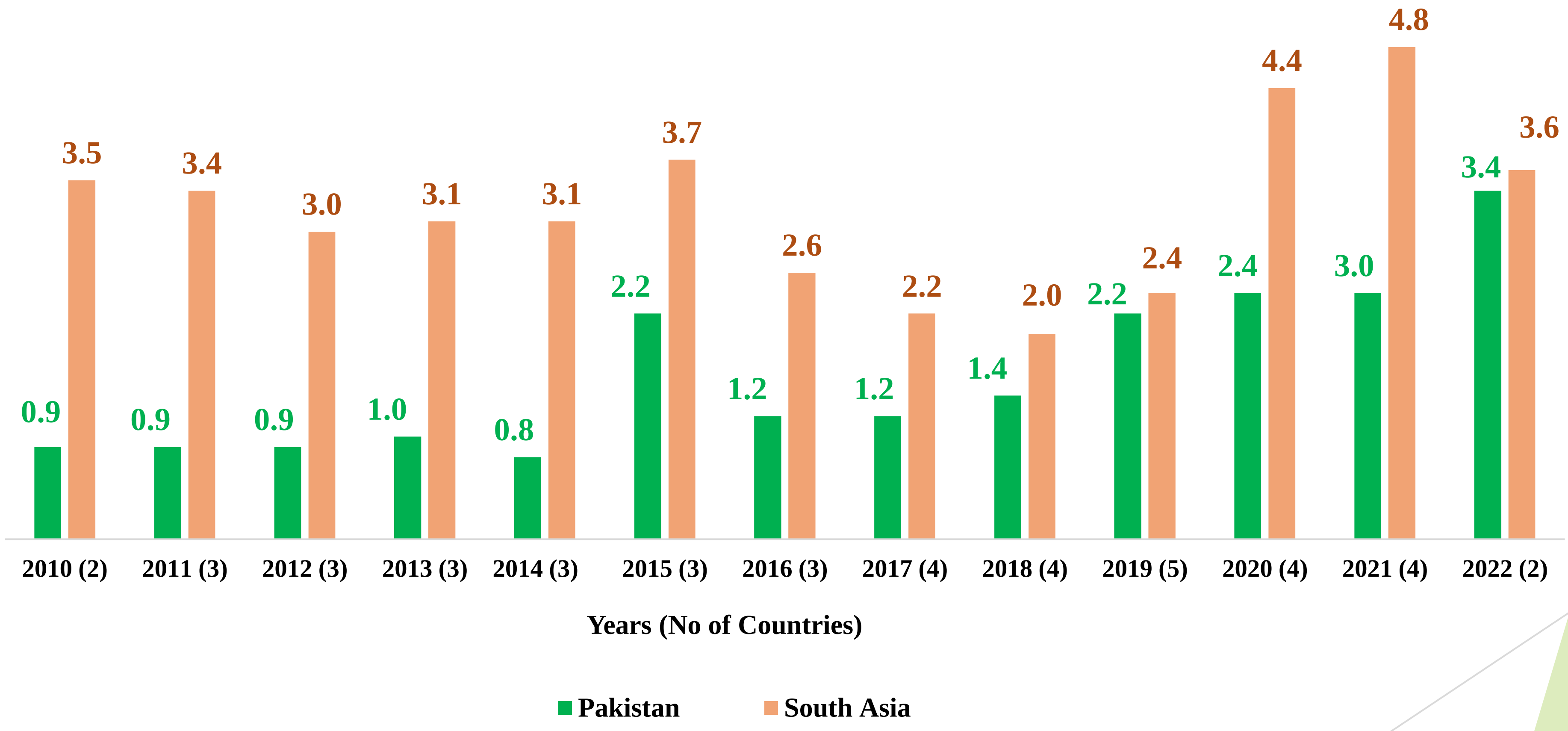
Pakistan Vs. Rest of the World

Average Tax Expenditure as %age of GDP



Source: Global Tax Expenditure Database available at [*https://gted.taxexpenditures.org/*](https://gted.taxexpenditures.org/)

Pakistan Vs. South Asia Countries
Average %age of Tax Expenditure of GDP



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Value Addition/Knowledge creation

A TER Manual has been prepared to streamline the work

Thank you