

DOING BUSINESS (2018) – PAKISTAN

Lahore

Paying Taxes

1. This briefing note considers the current position of the Doing Business topic of Paying Taxes in Pakistan. Specifically, it presents the data relating to *Lahore, Pakistan* (one of the two large cities of the country covered in the Doing Business-Paying Taxes indicator) and provides related recommendations, with the overall objective of improving related scores.
2. Pakistan is ranked overall 141 out of 190 countries, as measured by the Doing Business 2017 report, with a Distance to Frontier (DTF) of 51.77. One of the indicator that affects over ranking of Doing Business, is Paying Taxes. On this indicator, Pakistan ranks 156 out of 190 in 2017 with a DTF of 53.4.
3. In case of Lahore, the Paying Taxes indicator data shows DTF of 53.34, 47 tax payments, 311.5 hours in preparing, filing and paying taxes, and a total tax rate of 33.5%.
4. In relation to the new post-filing index, the table below summarizes the data collected on the basis of a case study:

	Answer	Score (0-100)
Post-filing index (0-100)		37.6
VAT refunds		
Does VAT/GST exist?	Yes	
Frequency of VAT/GST refund submission	Monthly	
Does a VAT/GST refund process exist per the case study?	No	
Restrictions on VAT refund process	Carry forward for six months	
Likelihood of VAT audit	NA	
Time to comply with VAT refund (hours)	NA	0.0
Time to obtain a VAT refund (weeks)	NA	0.0
Corporate income tax audit		
Does corporate income tax exist?	Yes	
Likelihood of corporate income tax audit	Unlikely	
Time to comply with a corporate income tax audit (hours)	28.5	50.5
Time to complete a corporate income tax audit (weeks)	0.0	100

5. The reasons for the comparative low scoring of Pakistan and Lahore may be explained by the following factors:
 - lengthy time to prepare, file and pay VAT
 - lack of online platforms for filing and payment of three main taxes and contributions - corporate income tax, VAT and labor contributions
 - absence of a VAT cash refund for cases of capital purchase (small businesses)

- burdensome process of amending a tax return

6. Following tables present short-term solutions (to be considered capable of implementation within nine months) and medium to long-term goals with the aim of improving the DTF score of Pakistan and Lahore.

Table A – Short-term recommendations

Recommendations	Description
Integrate commercial banks into IRIS to allow for online payment of taxes	<p>Private sector reported that taxpayers do not pay their taxes online. They still go to the banks in person to make these payments.</p> <p>FBR can work with the main commercial banks to integrate them in IRIS and the VAT platform to encourage taxpayers pay their taxes online.</p>
Allow the three labor contributions to be filed and paid jointly	<p>Doing Business records three different mandatory labor contributions that employers must pay - pension contributions, social security contributions and education cess. The government should consider the possibility of merging the declarations of these contributions into one form and allowing employers to pay the contributions in one account.</p> <p>Another alternative that the government could look into is to allow one tax treatment combining the three contributions. That is, instead of taxpayers making three different calculations for rates that are levied on the gross salaries, taxpayers apply one rate and the collecting agency distribute the contributions in the back office into three different funds.</p>
Train tax officers on tax matters	<p>Private sector reported that tax officers lack the knowledge in accounting and tax matters. They often receive different interpretations of the same tax issue from different tax officers.</p> <p>FBR should put in place a mandatory ongoing training program on tax issues for tax officers in all regional offices. This may involve reviewing and updating, upgrading or including relevant case-study based courses in the training programs at DOTS.</p>

Table B – Medium to long term recommendations

Recommendations	Description
Introduce an online platform for filing and payment of mandatory labor contributions	Doing Business records three different mandatory labor contributions that employers must pay - pension contributions, social security contributions and education cess. These contributions are still filed and paid in person.
Revise the KPIs of FBR to include not only yield targets but also measures of performance of tax officers	It is a best practice to include KPIs that are not only based on the yield objective of the revenue board. The common perception is that this approach sets the wrong incentive for tax officers when conducting audit or when deciding on a tax refund. FBR could consider complementing the budget targets with other performance KPIs designed to offer comprehensive information to assess efficiency of tax officers. These would include: number of cases resolved in a given tax year, days to completion of audit, days to report issuance for review, and number of cases concluded within a specified statutory time limit.

<p>Simplify the process for amending a corporate income tax return for cases of simple errors in the return and a small difference in the due tax liability</p>	<p>Doing Business records 28.5 hours for amending a corporate income tax return as a result of a minor error in calculation of the due tax liability (including the time taxpayers spend in submitting the amended return).</p> <p>FBR should revise the requirements for amending tax returns and look into the supplementary documents that taxpayers must submit to allow for an easier process and fewer requirements for at least the simple cases.</p>
<p>Consider allowing the option for requesting a VAT cash refund for cases other than exporters</p>	<p>FBR has put in place clear guidelines for cases where the input tax exceeds the output tax because of exports or other zero-rated supplies allowing the excess amount of input to be refunded back to the taxpayer within 45 days.</p> <p>However, for all other cases of excess input tax, FBR can specify the procedure for refund. There is no clear procedure for other cases including the case of a capital purchase which is covered by Doing Business.</p> <p>Private sector reported that the process to claim a cash refund in the case of a capital purchase is cumbersome and will most likely not happen in practice. Businesses in these cases would carry forward the credit and offset against future liabilities. FBR can consider carrying out a feasibility study to determine if VAT cash refund can be extended to include not all cases of exporters.</p>