

Capacity Building for Civil Society on Tax Legislative Advocacy in Pakistan

Project Report

1st July 2015- 31st December 2015



Submission Date: January 28th 2015

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The tax justice Campaign addresses Oxfam Novib central objective of reducing poverty and inequality. It was launched in Pakistan in April 2015 through a review of tax legislations. Indus Consortium and Centre for Inclusive growth among others are implementing partner in this regard. In July 2015 a second project “Capacity Building for Civil Society on Tax Legislative Advocacy in Pakistan” was initiated. This project was designed to complement, reinforce and expand the existing interventions of the legislative review project.

Both these projects aim to improve Pakistan regressive tax systems as it is contributing to the rise in inequality by fuelling social polarisation, hindering economic growth and facilitating a corrupt political system to function to the detriment of the poor.

The overall objective of the project was “to contribute to more democratic society and accountable and responsive state of Pakistan to close the tax gap and collect taxes fairly, reinforce pro-poor policies, decrease inequalities, and ultimately achieve marked advances in the progress towards the millennium development goals”.

The specific objectives was to “support and strengthen the capacity of CSOs in Pakistan to engage with the state in order to effectively raise public awareness and advocate for accountable, fair and pro-poor tax system that will lead to increase tax revenues fairly, raise transparency and refrain from tax revenue malpractice and social injustice”.

The project enhanced the capacity and alliances of civil society in Pakistan. Keeping in view existing research undertaken in the “Legislative review project”, evidence generation continued with researches on fair tax index Corporate, Tax Dodging Practices and Direct foreign investment. Based on these researches and consultations a political and policy agenda on fair taxation was formed and utilized for building a critical mass to influence public opinion, raise awareness, engaging with the state in political lobby Both the projects remained in sync with international actions and (Oxfam) campaigns on domestic resource mobilization, international tax havens and fair trade and tariffs. Partners and allies shared lessons learned to act as policy partners of governments, using both insider (research based policy advocacy) and outsider (media, popular mobilization, and international pressure) strategies.

Every government in the world has certain responsibilities regarding its citizens. Providing human rights to its citizens is the foremost. This should be clear from the very start that human rights not only encompass social and political rights, but also economic and social rights. The minimum requirements for the fulfillment of economic and social rights include the provision of available food stuff for the population, essential primary health care, basic shelter, housing and the most basic forms of education.

In Pakistan richest 10% have accumulated colossal assets in the last three decades without paying due income tax. Exemptions of billions of rupees have been given to the rich and mighty through executive orders (SROs), whereby incidence of indirect taxes on the poor have increased.

They have been forced to pay 17% sales tax on many items of daily use. The rich in Pakistan are either outside the tax net or do not pay personal taxes in accordance with their actual ability to pay. As a result, the poor's are overburdened with indirect taxes and withholding income tax as well as 17% sales tax on most of the items consumed by them and excessive withholdings at source even where income is below the threshold limit of Rs 400,000, the tax ceiling, rising level of poverty is due to many attributes and one direct link between growing poverty in Pakistan and income inequalities is due to distortion in tax base. The situation is of grave concern not only owing to inequitable balance between indirect and direct taxes but also due to the regressive taxes.

Although Pakistan has one of the highest corporate tax rates in the world but in reality the Federal Government has the power to grant exemptions, which distorts the level playing field in the economy. Evidence shows that while exemptions and concessions are granted to organizations, the benefits are not passed onto the end consumer. Conglomerates are often given preferential treatment. The exemptions also require complex record keeping and monitoring mechanism and involvement of a number of 12 stakeholders in 'approvals' e.g.

Board of Investment, Engineering Development Board, etc. Through the exemptions the stated tariff is rendered ineffective and results in much lower effective rate of tax¹.

One of the main significant policy challenges facing Pakistan is establishing and maintaining a sustainable source of revenue to fund domestic expenditures while this problem has many facets, i.e one of the most important is protecting the domestic tax base.

This relatively low ratio in Pakistan is primarily due to inherent weakness in the tax system including

1. Inefficient tax administration (poor management, weak human resources, lack of adequate supporting systems, excessive scope for discretion and rent seeking behavior).
2. The narrow tax base (of 39.4 million employed persons, only 3.9 % pay tax)².
3. Skewed tax structure (68 % of tax revenue is from indirect taxes)³.
4. A complex and non transparent tax system, and
5. Corruption and tax evasion (low compensation of tax official, informal structure of the economy).

All the above factors, resulting together in low tax base and poor collection of taxes from corporate sector, have led to the unavailability of funds for provision of even essential services; this is reflected through a meager percentage of GDP allocated to meet the budgetary requirement for sectors such as Education, Health and social protection.

Considering the above problems/issues Oxfam Novib Pakistan, with lead partners, Indus Consortium, Center for Inclusive growth, The Network for Consumer Protection and others is working to adopt a strategy to achieve the tax fair regime in Pakistan by following an active and effective campaigning regime with an objective of bringing a positive change in the tax system of Pakistan. Aiming to involve and mobilize the pressure groups of the civil society and other instruments such as sensitizing the policy makers and by stimulating organized research and debate on tax reforms so as to lead a nexus in which tax collection is directly link to provision of essential services. In this regard the project “Capacity Building for Civil Society on Tax Legislative Advocacy in Pakistan” was initiated with the following objectives and interventions.

¹ SDPI study on tax system in Pakistan.

² FBR annual review 2012-13.

³ Ibid

The project focused on achieving these objectives through evidence generation regarding the

IV. OBJECTIVES

A. OVERALL OBJECTIVE:

To contribute to more democratic society and accountable and responsive state of Pakistan to close the tax gap and collect taxes fairlyⁱⁱ, reinforce pro-poor policies, decrease inequalities, and ultimately achieve marked advances in the progress towards the millennium development goals (MDGs).

B. SPECIFIC OBJECTIVE

to “support and strengthen the capacity of CSOs in Pakistan to engage with the state in order to effectively raise public awareness and advocate for accountable, fair and pro-poor tax system that will lead to increase tax revenues fairly, raise transparency and refrain from tax revenue malpractice and social injustice”.

V. INTERVENTIONS

The interventions implemented under the project are detailed below

A. EVIDENCE GENERATION:

Keeping in view existing research undertaken in the “Legislative review project”, evidence generation continued with researches on fair tax index Corporate, Tax Dodging Practices and Direct foreign investment. The details are as under

1. REPORT ON CORPORATE TAX DODGING PRACTICES

A study on corporate tax scenario of Pakistan was conducted. The report analyzed the corporate sector, tax rates, its structures and the different loopholes and techniques being utilized for tax evasion in the country. The process of conducting the study was initiated

through development of Terms of Reference as well as consultation meetings with the researcher to develop mutual understanding regarding the report. The study was completed and submitted. It was also shared with key stakeholders for their comments and suggestions. The stakeholders appreciated the work and also gave their opinion to improve it further. After incorporating the valuable suggestions, the study is now completed.

2. DIRECT FOREIGN INVESTMENT

The Objectives of the study included an assessment of FDI to Pakistan, its relationship with the rates of taxes, Assessment of Ease to Do Business in Pakistan and Performance of those sectors of Pakistan's which have attracted most of the foreign direct investment. The process of conducting the study was initiated through development of Terms of Reference as well as consultation meetings with the researcher to develop mutual understanding regarding the report. The study was completed and submitted. It was also shared with key stakeholders for their comments and suggestions. The stakeholders appreciated the work and also gave their opinion to improve it further. After incorporating the valuable suggestions, the study is now completed.

3. FAIR TAX INDEX

A fair tax index was developed to engage the corporate sector. TORs for the research study on "Fair Tax Index" was developed according to the requirements. Consultation meetings with researcher was arranged to exchange main theme and purpose of the research study. The study was completed and submitted.

B. CAPACITY BUILDING OF CSO'S:

In order to educate CSOs about Pakistan's tax system and capacity building on tax advocacy to address the issues surrounding taxation, a two day training on "Tax Justice Advocacy" was organized for the Civil Society Organizations of Punjab province in Lahore and Islamabad. Representatives of civil society organizations from districts Lahore, Sialkot,

Faisalabad, and Sheikhupura, Muzaffargarh, Layyah and Multan, Rajanpur, Badin attended the training.

The training's content included an orientation of tax justice case, along with the briefing on tax systems, its objectives/benefits, current laws governing taxations system in Pakistan, corporate tax and its importance in raising revenues, evasion and avoidance of tax, tax havens, the relationship between taxes and human rights, case studies from different developing countries on how they are dealing with their tax issues, social inequalities and how they are fuelled by a unjust tax system, the need for tax reforms and how to struggle for a fair tax system.

The participants appreciated the trainings and agreed to work together on a common agenda to combat tax injustices in the country and strive for a fair tax system.





C. INFORMATION SEMINAR WITH POLICY MAKERS AND LEGISLATORS THROUGH SESSIONS AND LOBBYING

Tax justice has evolved to mean more than what it says on the tin. Tax is intensely political and conflicted matter. Tax collection involves unequal struggles played out in every country, every day. Tax is the central economic nexus between governments and their citizens: it can build accountability – but tax abuses and bad tax systems can foster widespread human rights abuses.

In this regards a seminar and lobbying meetings were conducted with Politicians, member Parliaments, Traders & relevant stakeholders.

A Seminar on “Tax Justice” was organized by the CIG consultant, Mr. Rehan Tahir on 08 December 2015 at Rahim Yar Khan, South Punjab. The seminar was attended by thirty participants which were comprises of local politicians, civil society, members of chamber of commerce and local youth organizations.



D. LOBBYING MEETINGS FROM OCTOBER TO DECEMBER 2016

A meeting was organized with Mian Naveed Ali, Member Punjab Assembly & Parliamentary Secretary for Labour & Human Resource at Desert Palm Hotel Rahim Yar Khan. Mian Naveed Ali belongs to young parliamentarian community and very energetic member of Punjab Assembly who always raised his voice for labour community of Punjab on all media levels. He appreciated our agenda "Tax Justice" and surely will raise our voice in Punjab Assembly. He said that a lot of efforts needed to articulate the vision lead by Oxfam especially in my areas i.e. Punjab South by awareness campaigns & training and we will surely support Oxfam in its agenda and waiting your prompt actions in this regards.

A meeting was organized with Makhdoom Syed Mustafa Mehmood, Member National Assembly - PPPP at Makhdoom House Jamal Din wali, TehSadiq Abad, Rahim Yar Khan. He said that through this Tax Justice Campaign we can change the lives of the poor. He surely raised our agenda and voice in National Assembly for the proper implementation and justice system in Pakistan as per international perspective.

A Meeting was conducted with Siddique Al Farooque Chairman Evacuee Trust Property Board Pakistan. He is one of the closest people to the Prime Minister of Pakistan Mian Nawaz

Sharif. He appreciated our cause and said in future will support us and will convey our gratitude to PM in this regards.

A Meeting was steered with Mr. Qutab Fareed Koreja - Member National Assembly and Chairman Standing Committee for Textile Industries at MNA Lodges Islamabad, Pakistan. Ex MPA Ghazanfar Khan Langha from LiaquatPur, Rahim Yar Khan was also there on this occasion. Both politicians were keenly interested in our Tax Justice Campaign by Oxfam and they will leads us in Future as well in their native areas i.e. South Punjab and in National Assembly as well. Mr. Qutab Fareed Koreja told that his party PPPP always tried to do their best efforts for the poor and peoples of less privileged areas and in future by this campaign we can uplift the daily life cycle of a poor man.

A meeting was organized with Rai Hassan Nawaz which is one of the most influential politicians in Sahiwal, a district in Punjab Province. He is currently the member of Pakistan Tehreek e Insaf. Being a member of Core Committee of PTI, he always raised his voice for the rights of the poor and showed interest in our Tax Justice campaign which can play a role to uplift the daily life of the poor.

Lobbying meetings with different stakeholders including civil society members, professors, lawyers, bankers, and traders, were also arranged at Peshawar and Lahore.

E. CAPACITY BUILDING SESSION AND FOLLOW-UP- MECHANISM FOR JOURNALISTS TRAINING

14 Journalists from Muzaffargarh, Multan, Rajnapur, Karachi and Badin participated in the training. The session started with introduction of participants while Mr Asim Jaffery introduced the ON work on tax justice including the global perspective of tax justice campaign. Mr Hussain Jarwar National coordinator Indus Consortium introduced the Indus Consortium and its work on tax Justice.

Social inequalities

Mr. Naseer Memon had given presentation on social inequalities. He said Tax has a connection with social justice and it comes from economic justice who ensures the equal distribution of resources between the poor and rich. Her further said State is an equalizer force to bring economic balances. Economic justice is strongly linked with MDGs and Provision of

basic economic rights. Money from the tax payer is for the society and civil society ensures that resources should be distributed on equitable basis.

Mr. Zafarullah Khan executive Director Center for civic education, gave an overview of the constitution of Pakistan. He differentiated between fundamental and human rights. Fundamental rights are the basic rights of the citizens which are supposed to fulfill by Government. He elaborated the points mentioned about tax in the constitution of Pakistan.

Anomalies in tax system of Pakistan

In order to have better understanding of it, anomalies of taxation system in Pakistan were presented by Mr. Asim Khatak (from Ministry of Finance). Following concepts were discussed in detail:

Tax Administration

Tax administration includes two taxes, the tax at federal level and tax at provincial level. Federal tax includes income tax, sales tax, federal excise duty which is imposed on industries only, customs duty and petroleum levy for few developing countries that import petroleum. Provincial taxes include Agriculture income tax, capital value tax, motor vehicle tax, property tax, cess on sugar and other useful materials and excises on hotels, cinemas etc.

Tax Ordinance

Federal Board of Revenue collects 90% of the taxation.

Formulation and administration

ADRC resolve tax related disputes. There is a mechanism of solving the tax related disputes from chairmen to Strategic policy and statistics.

Need of Tax Reforms

- We have low tax to GDP ratio. It is around 9% in Pakistan which is very low as compared to welfare states like Sweden and Norway where tax to GDP ratio is 55%.
- We have narrow tax base. Narrow tax base has created burden on poor in our country.
- Outdated process. We have the system which was before the independence of Pakistan.
- Corruption is involved in administration
- Lack of transparency
- Undocumented economy

Hence from the above mentioned points,FBR has formed a tax reform commission whose strategy is to simplify the tax laws,elimination of tax exemptions and effective dispute resolution mechanism.

Tax justice

Tax justice comes only if there is a balance between tax payer and state providing services in return.A just tax system is only known as “broad tax base”.

At the end session plan was developed by the journalists and taken the responsibilities to develop some products on tax justice issues. At the end of the session Mr Arie associate country director Oxfam Novib distributed the certificates among the journalists



F. SOCIAL MEDIA ENGAGEMENT AND BOOSTING

The Facebook and Twitter pages of “CIG” were created to add to the debate that was already being generated through our studies on tax regimes and the project activities. Event of National Tax Justice Youth Film Festival was also created on Facebook to boost the event. The aim was to engage the maximum number audience especially youth of Pakistan and got the excellent response. We used three options for boosting the activities which are National Tax Justice Youth Film Festival event Facebook Page, the song “Bhoola” and CIG organizational Facebook page for the project related activities promotion. The boosting period was from October to December 2015. Following are the links for reference:

<https://www.facebook.com/Centre-for-Inclusive-Growth>

<https://www.facebook.com/events/889167727835506/>

https://twitter.com/cig_pakistan

ⁱA fair tax system is: (1) progressive and serves as a mechanism to redistribute income in a gender sensitive way (2) refrains from and eliminates tax exemptions and incentives to the elite and (3) tackles causes of illicit capital flight and tax evasion by international companies and the wealthy.

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