PIDE-PRIME
TAX REFORMS COMMISSION

Pakistan Institute of Development Economics

ECONOMIC THINK TANK

TAX REFORMS: REVENUE WITH GROWTH

PIDE-PRIME TAX REFORMS COMMISSION

Vision: Transforming the Pakistan's Tax System for Growth and Ease of Taxpayers

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This presentation is based on the reports published by the following institutions and individuals.

- Pakistan Institute of Development Economics (PIDE)
- Policy Research Institute of Market Economy (PRIME)
- Pakistan Business Council (PBC)
- Dr Hafiz Pasha

Structure of Report

- Objectives
- Issues & Analysis
- Proposals
- Revenue Implications

Objectives & Parameters of a new tax policy

1. A citizen friendly, transparent, stable and predictable tax regime to stimulate growth and investment
2. Simplification & harmonization to facilitate taxpayers and ease of paying taxes
3. Automation & digitization to eliminate direct interface between the taxpayer and the tax authority

Summary & Key Points (1/2)

INCOME TAX

1. Uniformity of tax regime on all sources of personal and non-corporate incomes
2. Corporate tax rate to be decreased to 25%
3. Withdrawal of deemed rental income tax, CVT, super tax, turnover tax, presumptive/final tax
4. Restoration of investment credits for plant and machinery

CUSTOMS TARIFFS

5. Zero-rated import of Plant and Machinery, industrial raw materials and intermediate goods
6. Withdrawal of regulatory and additional custom duties and withholding of income tax on imports

GENERAL SALES TAX

7. Harmonisation of GST/VAT
8. Gradual reduction of VAT to 10%
9. No new exemptions on GST except in areas such as education and health

Summary & Key Points (2/2)

WITHHOLDING TAXES

10. Reduction in the number of Withholding Taxes and complete roll-back of WHT regime except, in the long-run, on pay-roll, interest, dividends and payments to non-residents

TAX ADMINISTRATION

1. Mandatory registration in GST starting in the first phase with commercial importers, wholesalers and tier-1 retailers
2. Automation and Digitization to reduce interaction between taxpayers and tax authorities
3. Abolishment of non-filer category
4. Enhancement in capacity of PRAL
5. Formation of a Pakistan Fiscal Policy Institute/Budget Office for Parliamentarians

Overall gains from tax reforms (Rs. in billion)		
Years	**Total Net gains**	**% of base**
Year 1	1,176	19
Year 2	1,201	20
Year 3	1,407	23
Note: Base year is FY 2021-22 All figures in Rs billion		

Issues and Analysis

The Problem

- Pakistan has no clear tax policy— only measures sporadically introduced on ad hoc basis creating uncertainty & lack of trust.
- Growth and investment adversely affected.
- Tax evasion increases
- Revenue shortfalls
- Tax advice influenced by lenders

Trust deficit between revenue authority and taxpayers

1. Withholding and Minimum Tax Regimes Excessively Used: Approximately 68% of revenue is collected through withholding and minimum tax regimes, leading to inefficiencies and compliance challenges.
2. Fragmented System with Many Exemptions and Rates creating complexity and confusion for taxpayers.
3. Arbitrary Revision of Tax Rates: Tax rates are frequently revised without clear rationale or economic justification, leading to uncertainty and instability for taxpayers.
4. Broken Refund System: Taxpayers face delays and hurdles in obtaining refunds, undermining trust in the tax system and hindering business operations.
5. High Compliance Costs: Taxpayers incur high administrative and procedural costs to comply with tax regulations, reducing incentives for voluntary compliance and conducting economic activity.
6. Threat of predatory ITO: Companies and investors scared of predation

Problems in existing Customs Tariff Regime

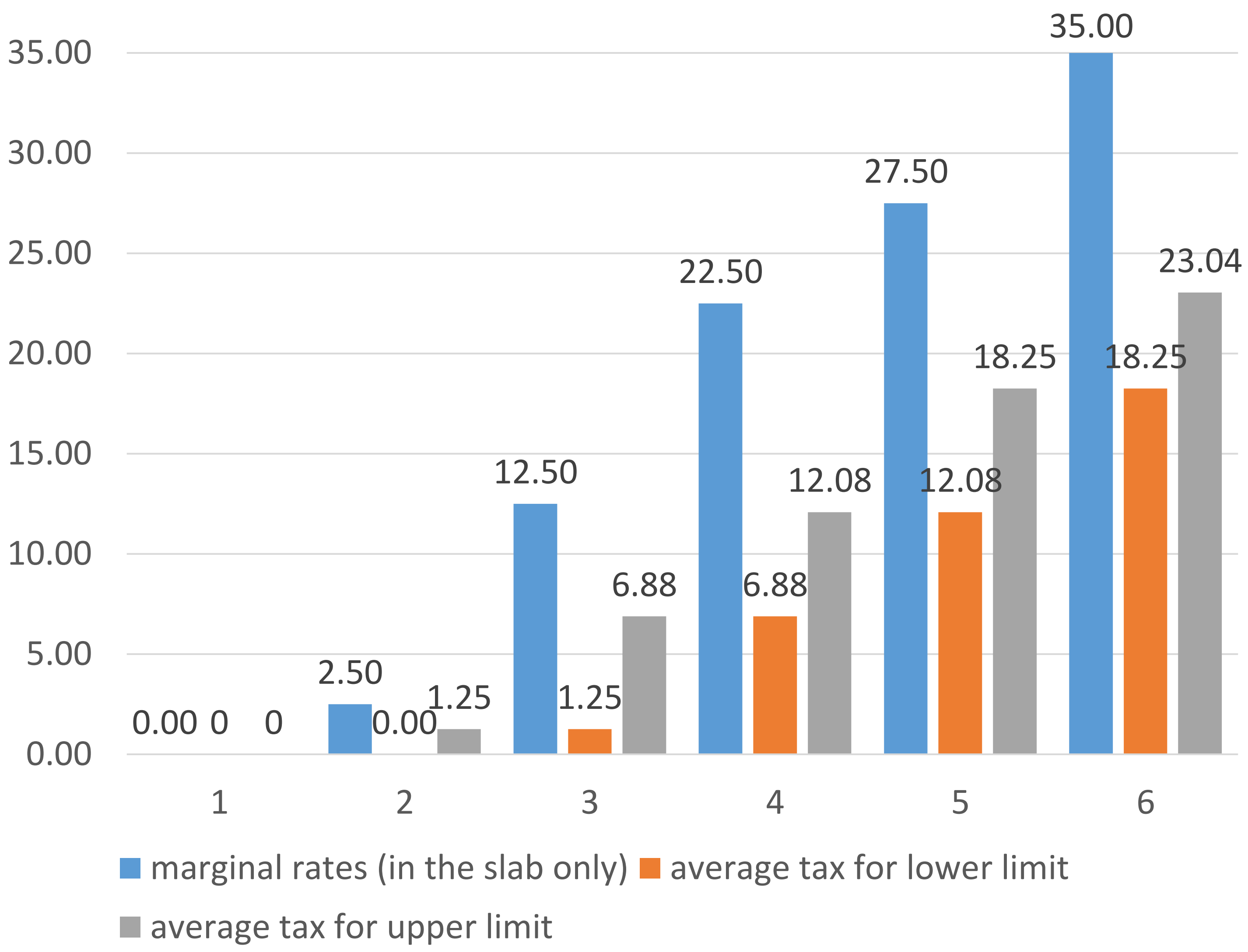
- Serious anti-export bias
- Focus on revenue implications keeping economy closed, affecting its competitiveness
- Keeps Pakistan out of global integration
- Taxes (including GST, FED, WHT, CD and other duties) at imports stage 46% vs 5% world average

Problems in existing GST regime

- Broken vat; supply chain not fully registered, preventing claim of refunds
- Weak enforcement by FBR. Number of firms registered & paying GST only 114,000 out of >3 million commercial & industrial firms.
- Goods and Services taxed separately under Federal and Provincial tax authorities.
- Exemptions (resulting in distortions)

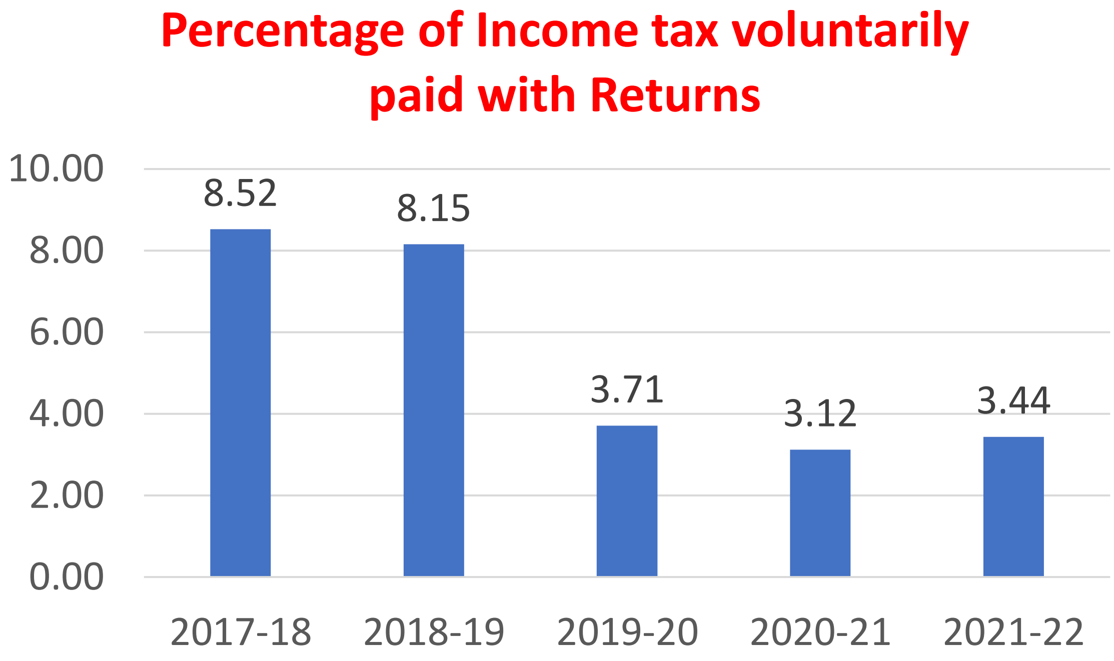
Problems of existing Income tax regime

- Equity concerns – vertical equity missing
- The effective income tax rate under the current marginal tax slabs for the higher slab is low compared to the corporate tax rate (23.04 vs. 35%+ on corporates), which incentivizes businesses to remain unincorporated.
- Salaried Class contributing significant amount on WHT basis.



Income tax voluntarily paid with returns declining

Because of heavy reliance on presumptive and withholding taxes the percentage of voluntary income tax paid with returns has been declining over time



Policy and Compliance Gaps

- Policy gap (also referred to tax expenditures) shows the estimated revenue loss in a fiscal year. Every year FBR carries out estimates of revenue losses on all types of taxes. For FY 2021-22 it estimated the income tax loss to be more than Rs 400 billion, for Sales tax more than Rs 700 Billion and for Customs more than Rs 500 Billion.
  - These losses result from special exemptions, permissible deductions, credits, deferrals, and preferential tax rates in federal/provincial tax laws (Income Tax, General Sales Tax, Excise Duty and Custom Tariffs).
  - Tax expenditures reduce the tax liabilities of individuals and businesses that undertake activities specifically encouraged or assisted by govt..
- The Compliance gap (tax gap) is broadly defined as the difference between what taxpayers should pay and what they actually pay. FBR estimates the tax gap each year to assess tax compliance of taxpayers with their Federal tax obligations.
  - The tax gap is difference between taxes legally owed and taxes collected, resulting in revenue loss.
  - FBR estimated it to be RS.1.3 trillion for FY 2021-22.

Proposals and Revenue Implications

CUSTOMS TARIFF REFORMS

1. Abolish Regulatory duties, Additional Custom Duties, withholding income tax and sales tax on imports of capital goods and industrial inputs (raw materials and intermediate goods)
2. Make customs tariff transparent with 4 slabs of 0, 5,10 and 20%.
3. Bring customs duty rates at par with other competing regional developing countries.
4. Same duty rate irrespective of the end use/user.
5. Exemptions should be merged into tariffs. Schedule 5 to be eliminated.

Rationale:
Import Taxes IN Pakistan (including GST, FED, WHT, CD and other duties) now at 46% vs 5% world average.

- Lowering of tariffs has a positive impact on revenues (e.g. our own case and that of Vietnam)
- Substantial reduction of smuggling and mis-invoicing. Other taxes also increase

Additional revenue from reform of customs tariff (Rs billion)

- Elimination of exemptions and concessions (referred to as policy gap) will lead to increase in the customs revenue. *(Column 2)*
- Withdrawal of regulatory duties and additional custom duties on the imports will:
  - result in the reduction in customs revenue; *(Column 1)*
  - decrease smuggling and mis-invoicing (referred to as compliance gap) as importers will be incentivized to use formal channels. *(Column 3)*
- Net gains, at a very conservative level, will be Rs17 billion in year 1. *(Column 4)*
- Reforms will result in an overall growth in tax revenue. *(Column 5)*

Years	Tariff Policy	Policy Gap reduction	Compliance Gap reduction	Net Gains	% of base Collection
	1	**2**	**3**	**4**	**5**
Year 1	-258	260	15	17	3.4%
Year 2	-193	287	16	109	21.2%
Year 3	-145	315	18	188	36.5%

Additional revenue from resulting adjustments in the policy gaps (assuming 40% reduction) and compliance side (assuming 30% reduction) whereas the additional revenue is expected to much higher over time.

GENERAL SALES TAX REFORMS

1. Harmonised and equalized VAT mode, across goods and services and across provinces, including wholesale and retail.
2. VAT rate should be brought down gradually to 10% in 5 years.
3. Zero-rated GST/VAT shall be applicable on domestic supply of items as per EU standards.
4. Import of plant and machinery, industrial raw materials and intermediate goods to be zero-rated.
5. By the end of 5 years GST on chapters 24-97 of the customs tariff would be gradually zero-rated on imports, with GST being applied on their domestic supply.
6. No GST related exemptions for Special Economic Zones (exports will be zero-rated) since it encourages evasions. All existing agreements/contractual obligations to be honored.

Rationale:
Existing literature indicates that on average those countries (like India, Georgia, Mexico, etc.) that shifted from high GST (17 to 19%) to VAT with a low rate (7 to 10%) have experienced an immediate positive impact on the tax-to-GDP ratio by 3 to 4%.
- An increase in sales tax rate brings an increase in tax revenues in the short run but leads to a decrease in tax collection in the long run.
- In the Short Run: on average, a 1 percent increase in GST increases revenues by 2%, while; In the Long Run: FBR revenues tend to decrease by 4% rates

GST Reforms to result in Rs. 790 billion of additional revenue in year 1

- Shifting from current GST regime with high rates (17% to 19%) to a complete VAT (through POS integration) with a low rate (7% to 10%) will have a positive impact on the GST collection and increase GST-to-GDP ratio by 1%. *(Column 1)*
- Assuming 10% reduction in GST concessions and exemptions, we estimate a revenue gain of Rs 129 billion *(Column 2)*
- Better enforcement through POS integration and elimination of fake and flying invoices will lead to at least a 5% reduction in it, generating a revenue gain of Rs 25 billion. *(Column 3)*
- We estimate net gains to be Rs. 790 billion in year 1. *(Column 4)*
- Reforms will lead to growth in tax revenue. *(Column 5)*

Years	VAT Reforms	Policy Gap reduction	Compliance Gap reduction	Net Gains	% of base Collection
	1	**2**	**3**	**4**	**5**
Year 1	634	129	25	790	28.2
Year 2	698	129	25	853	30.5
Year 3	768	129	25	923	33.0

Estimations are based on FY 2021-22 data for collections, tax expenditures and tax Gap.
Last column of percentage change can be used for current projections.

PERSONAL INCOME TAX REFORMS

1. Same rate of tax on same levels of income irrespective of source.
2. Income Tax slabs rationalization for progressivity
3. Increase in income tax exemption threshold to Rs. 0.8 million and review it periodically
4. The effective tax rate on personal income should be 5% points higher than the corporate income tax rate.
5. Withdraw Deemed Rental Income (7E) Tax, Capital Value Tax on Foreign Assets, Super Tax, Turnover tax, Inter-corporate dividend income, Presumptive/Final tax regime
6. No Income tax on interest income of Roshan Account holders.
7. Review International Tax treaties for tax residency.

Rationale:

It will simplify the tax system and increase efficiency and revenue.

It will broaden the tax base, make system fairer and reduce compliance burden.

It will promote savings and supply of investable funds.

Lowering of marginal income tax rates will encourage highly talented professionals to stay in the country because of higher disposable income.

Proposed Income Tax Slabs

	Annual Taxable Income	Rate AND TAX PAYABLE
1	Up Rs. 800,000	0%
2	Rs 800,0001 – Rs 2,400,000	5%
3	Rs 2,400,001- Rs 4,800,000	Rs 80,000 + 12.5% of the amount exceeding Rs 2,400,000
4	Rs 4,800,001- Rs 9,600,000	Rs 380,000 + 20% of the amount exceeding Rs 4,800,000
5	Rs 9,600,001- Rs 30,000,000	Rs. 1,340,000 + 27.5% of the amount exceeding 9,600,000
6	Amount exceeding Rs 30,000,000	Rs 6,950,000 + 35% of the amount exceeding Rs 30,000,000

Application of New Tax Slabs

Salary (Examples) (Annual)	Current Tax on Salaried (Annual/ Monthly)	Proposed Tax on the Salaried, Business Individuals and AOPs (Annual/Monthly)	Effective Tax Rate	
			Current	Proposed
Rs. 700,000	Rs. 2,500/208	0	0.35%	0%
Rs. 1,200,000	Rs. 15,000/1,250	Rs. 20,000/1,667	1.2%	1.6%
Rs. 2,400,000	Rs. 165,000/13,750	Rs. 80,000/6,667	6.8%	3.3%
Rs. 3,600,000	Rs. 435,000/36,250	Rs. 230,000/19,167	12%	6.38%
Rs. 35,000,000	Rs. 13,695,000/1,141,250	Rs. 8,700,000/725,000	39%	24.8%
Rs. 60,000,000	Rs. 19,995,000/1,666,250	Rs. 17,450,000/1,454,167	33%	29%

CORPORATE INCOME TAX REFORMS

1. **Corporate Tax Rate** of 25%, to be reduced further to make it regionally competitive.
2. **Withdraw:**
    1. Super Tax
    2. Turnover tax
    3. inter-corporate dividend income
    4. Presumptive/Final tax regime

Rationale:
This will encourage investment, corporatization and documentation as well as simplification for taxpayers and revenue optimization for FBR.

FEDERAL EXCISE DUTY REFORMS

Higher rates of Excise Duty will be imposed on tobacco and additive beverages, or any other products declared harmful for health or environment.

For tobacco; tax at a very low rate @500 /kg at GLT stage as well.

Rationale:
An increase in such types of taxation would bring about increase in tax collection along with health benefits. Will improve the progressivity of the tax system as poor have high demand elasticity for these products. Broaden the tax base.

Global literature suggests that environmental tax revenues are contributing significantly to total tax revenues of developing countries. Broaden the tax base with green and sustainable growth.

Reduce the size of informal economy. It will improve the efficiency and tax revenues.

FED Reforms: Revenue Implications (Rs Billion)

- Estimations done using FY 2021-22 data for collections (*For latest years values can be calculated using the last column of percentage increase)*.
- PIDE study (2018) shows that change in tax rate leads to a 14.17% increase in tobacco tax collection (Projection average). Assuming the same holds for Beverages.

	Cigarettes	Beverages	Total Gains	% of FED
Year 1	10.4	5.5	16	4.9
Year 2	10.4	5.5	16	4.9
Year 3	10.4	5.5	16	4.9

CAPITAL GAINS TAX REFORMS

1: Listed Securities

a. Sold within 12 months: Tax as normal income;

b. Sold between 12 months and five years: Normal rate with indexation for inflation

c. Sold after 5 years: No tax

2: Unlisted Shares

a. Within five years: Normal rate with indexation for inflation

b. After five years: No tax

3. Real Estates

a. Open Plot: Within five years: 5% with indexation for inflation

b. After five years: No tax 5 years

Constructed Property:

1% for 5/7 years and no tax thereafter

Rationale

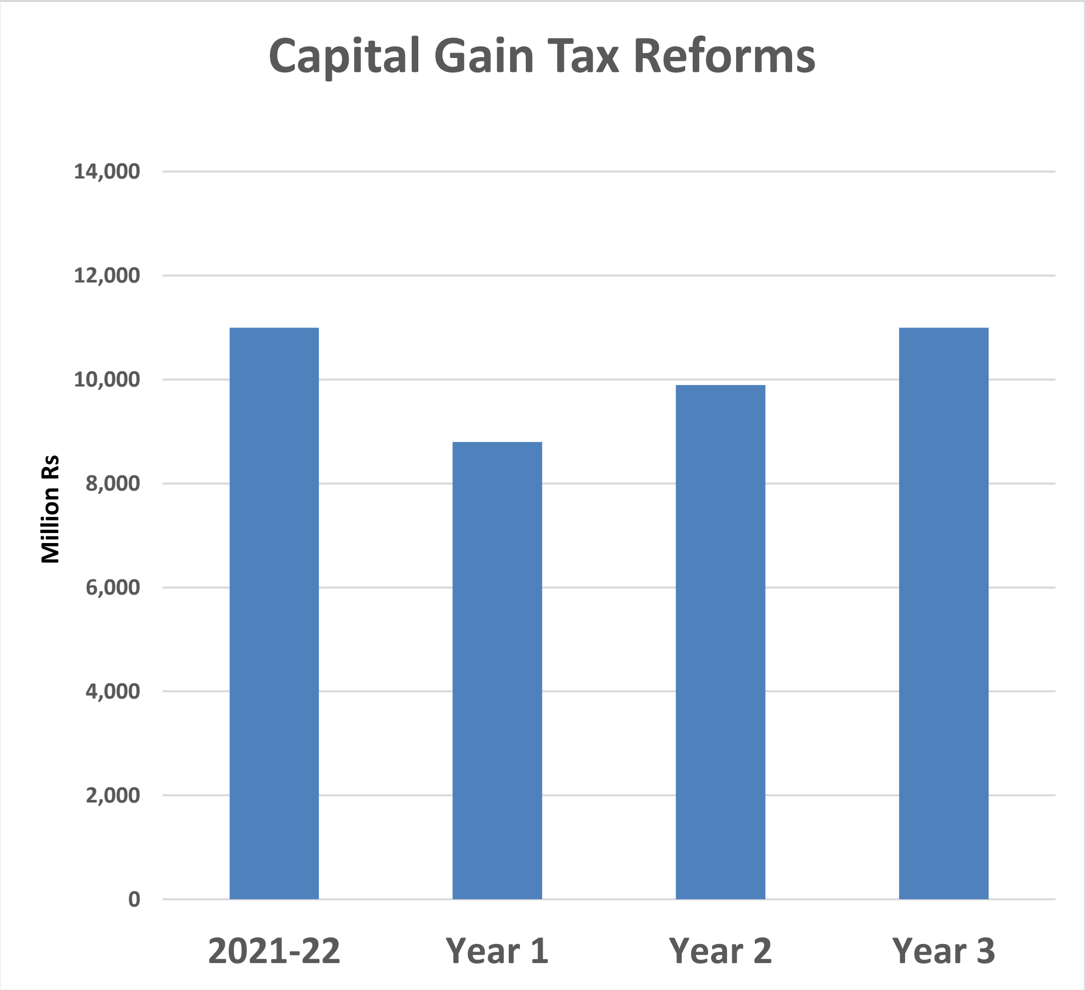
Current collection is Rs 10 billion only.

Lowering the capital gains tax rates would increase the return on investment, which would ultimately lead to an increase in tax revenue as well.

Any capital gains tax after adjusting for inflation would not have negative impacts on the real purchasing power of an asset, which ultimately would reduce the distortionary impacts of taxation.

Capital Gains tax Reforms: Revenue Implications

Capital Gains Tax reforms would result in **20%** reduction in revenue for the first year but gradually come back to existing level in three years



REFORMING WITHHOLDING TAXES

1. Withholding Taxation Regime should be classified as Advance Income Tax.
2. All withholding taxes on transactions, which are not based on income (such as utilities, school fees, bank withdrawals etc) should be gradually phased out.
3. In the long run, all kinds of withholding taxes, except on payroll, interest, dividends and payments to non-residents should be discontinued.

Rationale:

Withdrawal of excessive withholding taxation will lead to simplification facilitating taxpayers. It will also reduce the administrative burden of FBR for collection of non-revenue spinners.

Reduction in WHT would induce growth in direct taxes by 0.28% in GDP.

TAX EXEMPTIONS

1. There will be no new exemptions/concessions on GST except sectors supporting education and health, which should be zero-rated.
2. Restore investment tax credits on plant, machinery, and industrial buildings.
3. Allow 25% depreciation on new plant & equipment for the first year and withdraw concessions on import of machinery.
4. Use transfers or income tax as a policy handle for any incentive if required but no incentive of exemptions/concessions in GST.

Rationale:
Exemptions create distortions and uncertainty

Literature suggests that fiscal incentives which leads to expansion and growth of SMEs would not only enhance economic growth but also brings about increase in tax revenues

Allowing 25% depreciation on new plant & equipment for the first year will incentivise businesses to modernise and upgrade current assets.

If FBR removes all exemptions including income tax related, it will increase the FBR revenues by 37% and would increase the tax-to-GDP ratio by 3.36 %.

Direct Tax Reforms to yield Rs 450 billion additional revenue in year 1

- We estimate Rs 350 billion gains from direct tax reforms (rate reduction will improve compliance, submission of returns, merger of various classes of taxes). *(Column 1)*
- We estimate loss of Rs 177 billion from withdrawal of Alternate Tax, Minimum Tax, Turn Over Tax. (*Column 2)*
- Estimated fiscal gains with businesses re-investing savings from reduction of non-revenue WHT. *(Column 3)*
- Estimated gains of Rs 84 billion as result of reduction in concessions and exemptions. *(Column 4)*
- Estimated gains due to Mandatory filing, filer/non filer elimination, VAT Reforms to lead to Income tax gains. (*Column 5)*
- Reforms to result in tax revenue growth. *(Column 7)*

Years	Gains	Losses	WHT reduction / EODB	Policy Gap reduction	Compliance Gap reduction	Net Gains	Base Collection (%)
	1	2	3	4	5	6	7
Year 1	350	-177	118	84	73	450	19.3
Year 2	421	-386	177	127	109	450	19.3
Year 3	504	-480	266	190	164	645	27.7

Estimations done using FY 2021-22 data for revenue collections, assuming a 10% reduction in the policy and compliance gaps on the average. For latest year projections the last column of percentage increase can be used.

Tax rationalizations to yield Rs 4 trillion in first three years

	Direct Taxes Reforms		Indirect Taxes/GST Reforms		FED Reforms		Customs Reforms			
Years	Net Gains	% of base Collection	Net Gains	% of base Collection	Net Gains	% of base Collection	Net Gains	% of base Collection	Total Net gains	% of base
Year 1	370	16	790	28	16	5	17	3	1,194	20
Year 2	332	14	854	30	16	5	110	21	1,311	21
Year 3	468	20	924	33	16	5	188	36	1,596	26
Note: Base year is FY 2021-22 All figures in Rs Billion										

- **Note:** The tax revenue gap attributed to the IMF according to a news item is Rs. 7 trillion, which is based on the FBR estimates of policy and enforcement gaps. In our proposal, we estimate the tax gap to be Rs. 1.1 to 1.4 trillion, assuming 10% reduction in the policy and enforcement gaps on the average. We are of the opinion that setting a higher target will put FBR under undue pressure and will damage prospects of economic growth.

Make agricultural income a federal subject

1. The exemption of agriculture income including rental income on agriculture should be removed through a constitutional amendment, thus making "income" a federal subject without any exemption.
2. Corporate farming to be encouraged through rebate of 1%.
3. Allowing losses to be carried forward for adjustment against income tax liability.

Rationale:

This would increase tax revenues of the agriculture sector by extracting a maximum revenues out of potential revenues estimates of Rs 112 to 134 billion of the sector (these estimates are based on GDP of 2017-18.)

TAX ADMINISTRATION REFORMS (1/2)

1. The "non-filer" category should be abolished, and "non-filers" should be treated as tax defaulters and prosecuted as per the law. There should be only two categories: those who are required to file and those who are not required to file.
2. In each gas and electricity connection of commercial and industrial nature, there should be a 'User Number' which is necessarily related/ linked to tax registration.
3. VAT mode will be completed starting with commercial importers and wholesalers and Tier 1 retailers in the first year and the Tier 2 and Tier 3 retailers in the next 2-3 years.
4. Whole 'Audit' function of the Income tax, sales tax and custom to be abolished. In exceptional cases of audit, the exercise to be undertaken using automation and digitization minimizing personal interaction between taxpayer and tax officer.

Rationale:

This will develop trust of taxpayers through predictability and transparency of system; ensure simplification and harmonization of Tax Laws and Rates; Implement Automation and Digitization; Encourage Corporatization and Documentation; and Remove fragmentation and distortions

Tax administration reforms can lead to an increase in tax revenues between 2 to 3 pc of GDP (experience of Jamaica, Rwanda, and Senegal).

TAX ADMINISTRATION REFORMS (2/2)

5. As already mentioned, digitization and automation to reduce interaction between the taxpayers and tax authority.
6. Trade facilitation reforms to bring clearance time at par with the region.
7. Make customs valuation rulings more transparent using Artificial Intelligence (AI) algorithms and gradually shift to transaction basis.
8. Enhance the capacity and autonomy of PRAL.
9. Formation of a Pakistan Fiscal Policy Institute/Budget Office for Parliamentarians to research on Pakistan's tax policy and coordinate on policy matters with lenders.

Rationale:

This will develop trust of taxpayers through predictability and transparency of system; ensure simplification and harmonization of Tax Laws and Rates; Implement Automation and Digitization; Encourage Corporatization and Documentation; and Remove fragmentation and distortions

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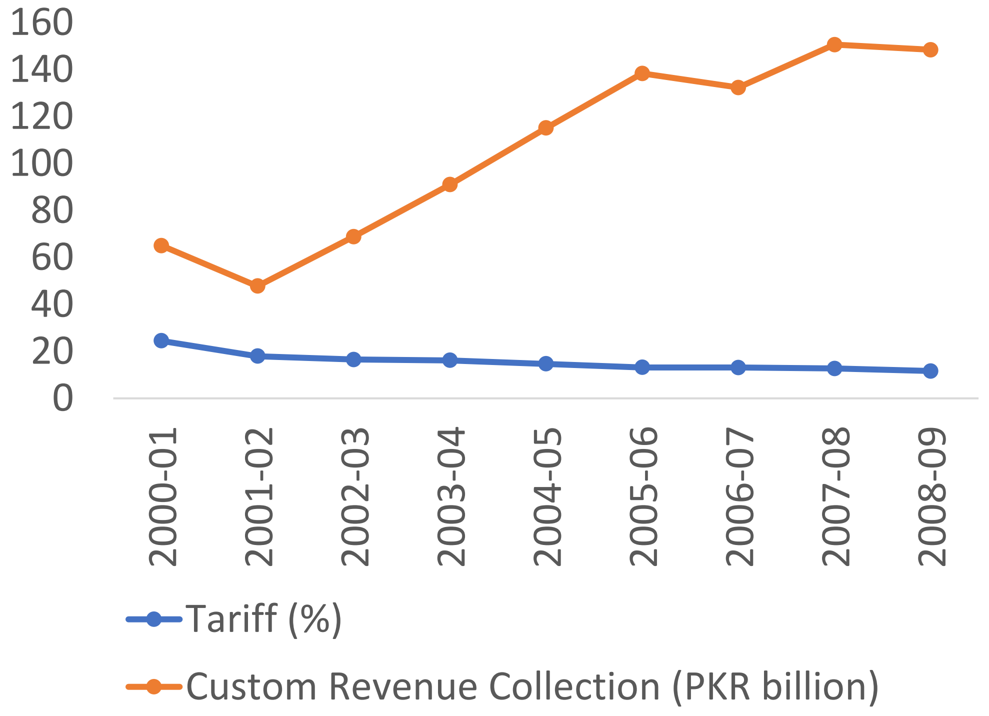
Annexures

Historical Snapshot: Pakistan's Tariff and Custom Revenue

Year	Tariff	Custom Revenue Collection	Exports	Imports
	Values in %	Values in PKR billion	Values in USD million	
2000-2001	24.49	65	9,202	10,729
2001-2002	17.93	47.8	9,135	10,340
2002-2003	16.51	68.8	11,160	12,220
2003-2004	16.18	91	12,313	15,592
2004-2005	14.7	115.1	14,391	20,598
2005-2006	13.18	138.3	16,451	28,581
2006-2007	13.13	132.3	16,976	30,540
2007-2008	12.72	150.6	19,052	39,966
2008-2009	11.6	148.4	17,688	34,822



Historical Snapshot: Vietnam’s Tariff and Custom Revenue

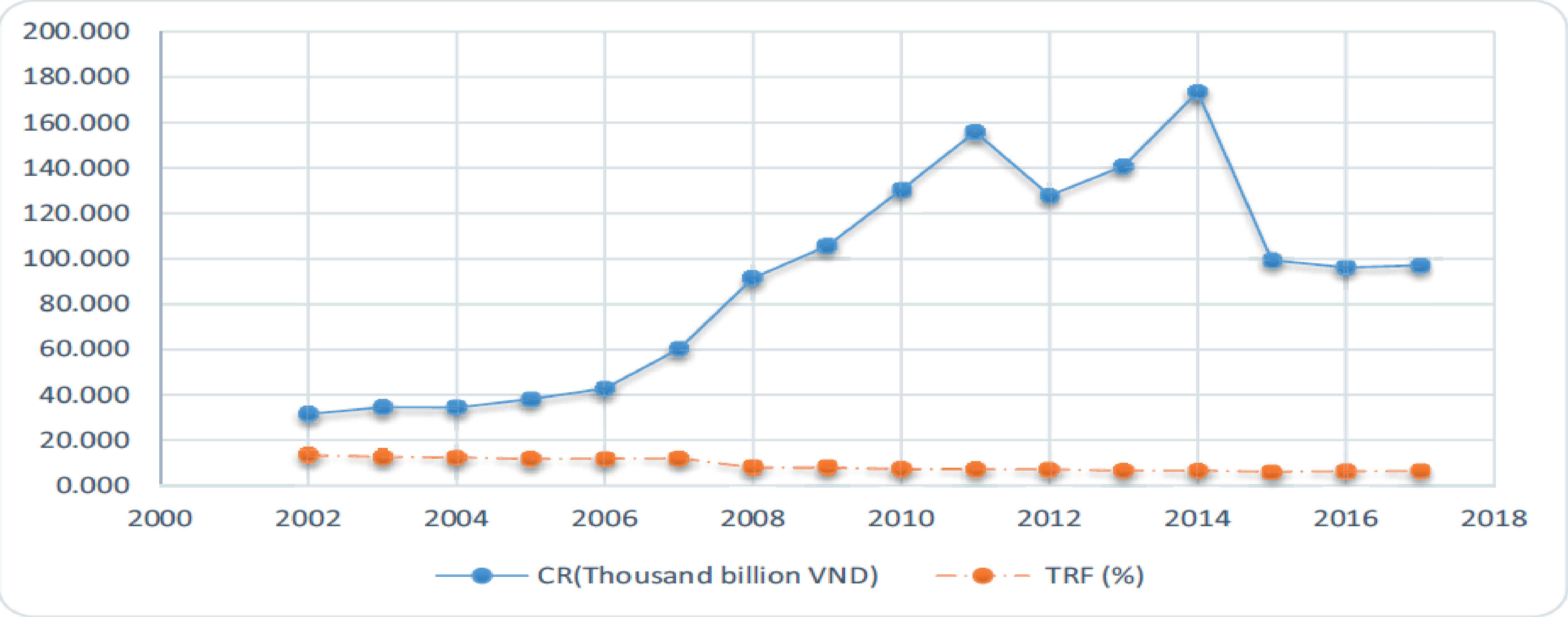
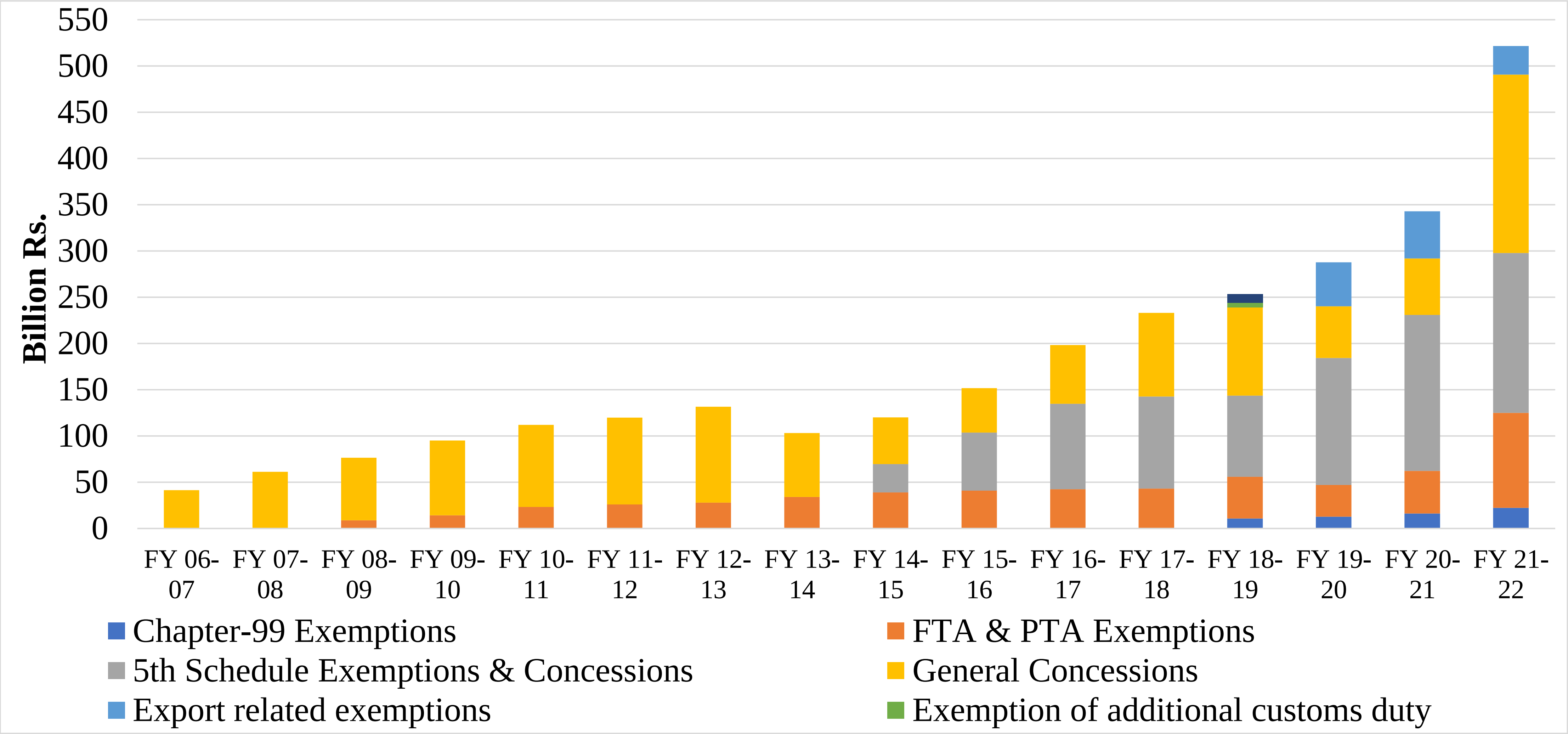


Figure 1: Vietnam customs revenue and average tariffs from 2002 to 2017

Source: CR - International publication data of Vietnam Ministry of Finance;
TRF - http://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS?page=2

Customs Duty Tax Expenditures (Policy Gap) 2006-22



Income Tax Rates
(Salaries) **2023-24**

Taxable Income		Tax Rates	
Minimum	Maximum	Tax Amount (Minimum)	Tax on Excess over min tax rate (%)
0	600,000		0
600,000	1,200,000		2.5
1,200,000	2,400,000	15,000	12.5
2,400,000	3,600,000	165,000	22.5
3,600,000	6,000,000	435,000	27.5
6,000,000		1,095,000	35

Income Tax Rates
(Individuals & AOPs)
2023-24

Taxable Income		Tax Rates	
Minimum	Maximum	Tax Amount (Minimum)	Tax on Excess over Min Tax Amount (%)
0	600,000		0
600,000	800,000		7.5
800,000	1,200,000	15,000	15
1,200,000	2,400,000	75,000	20
2,400,000	3,000,000	315,000	25
3,000,000	4,000,000	465,000	30
4,000,000		765,000	35

Tax Slab Comparison

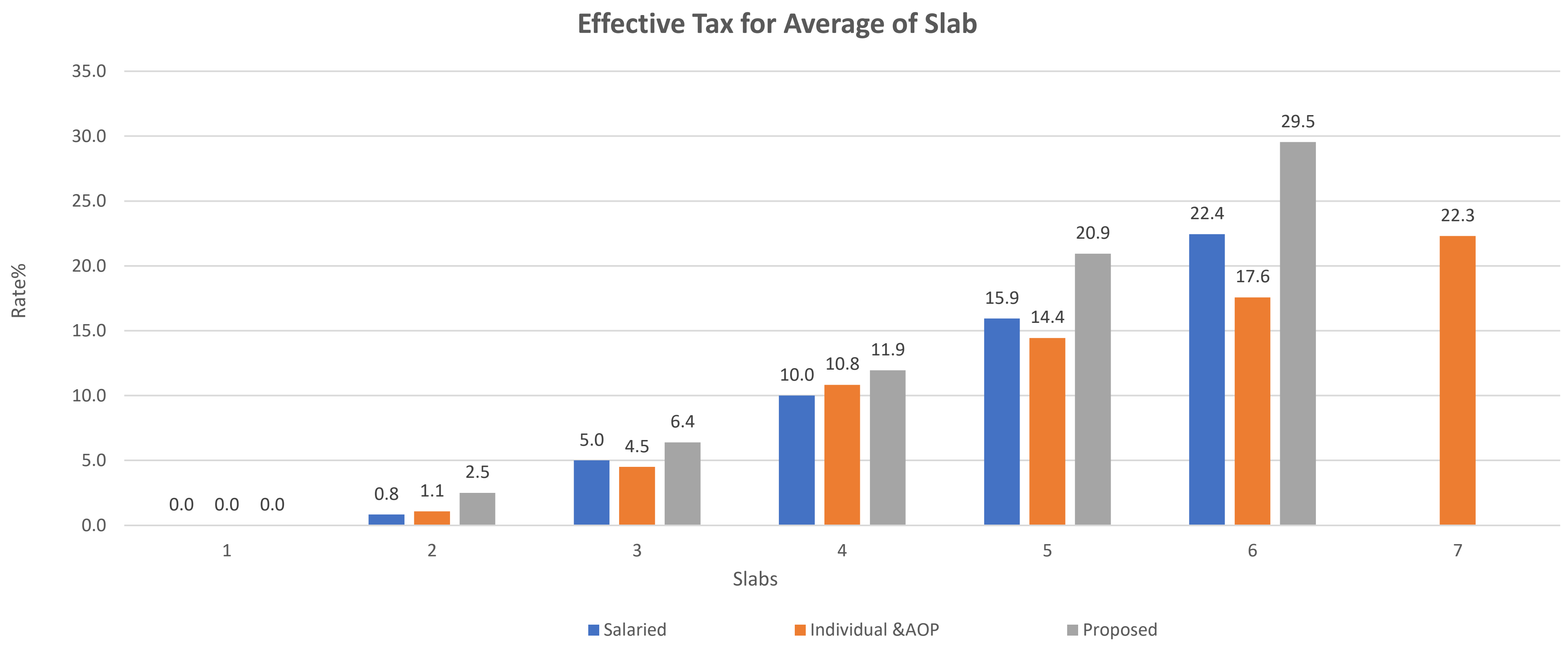
Pakistan: Per Capita Income $1471 Exchange Rate (277.58)	
Taxable Income ($)	Tax Rates (%)
0 - 2162	0
>2162 – 4323	2.5
>4323 – 8646	12.5
>8646 – 12969	22.5
>12969 – 21615	27.5
>21615	35

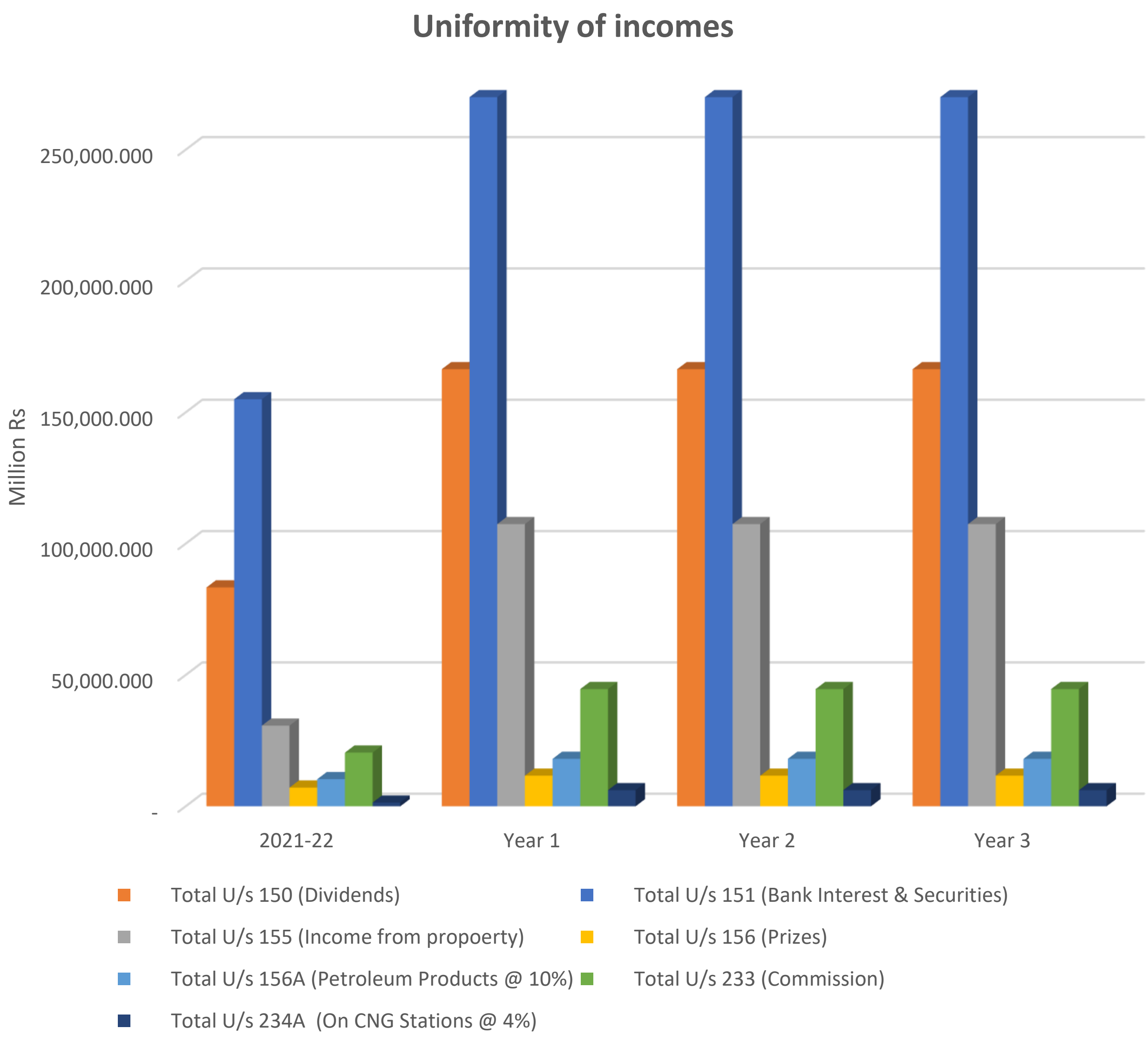
India: Per Capita Income $2612 Exchange Rate (83.38)	
Taxable Income ($)	Tax Rates (%)
0 - 3597	0
>3597 – 7195	5
>7195 – 10793	10
>10793 – 14391	15
>14391 – 17990	20
>17990	30

Sri Lanka : Per Capita Income $3354 Exchange Rate (300.39)	
Taxable Income ($)	Tax Rates (%)
0 - 1664	6
>1664 - 3329	12
>3329 – 4993	18
>4993 - 6658	24
>6658 - 8322	30
>8322	36

Bangladesh : Per Capita Income $2621 Exchange Rate (109.75)	
Taxable Income ($)	Tax Rates (%)
0 – 3183	0
>3183 – 4093	5
>4093 – 6822	10
>6822– 10460	15
>10460 – 15009	20
>15009	25

Proposed slabs merge salaried with individuals/AoP and are more progressive





Personal Income Tax under different heads to be merged

- Dividend income, rental income, prize money, petrol pumps, commission and Profit on debt treated as income.
- Tax liability estimated with average rate of **17.5%**

Corporate Income Tax Rate Comparison

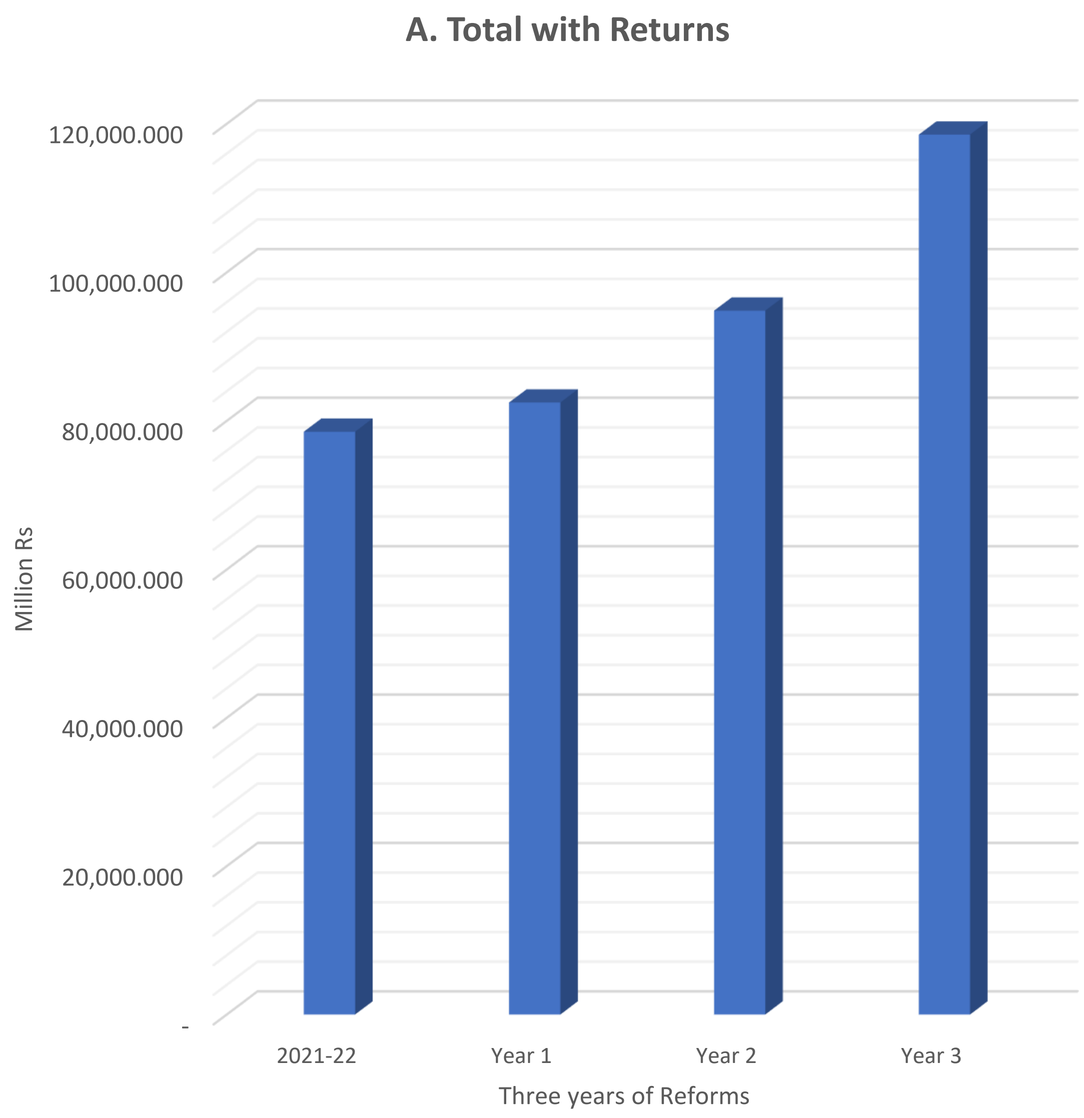
Years	Pakistan	India	Sri Lanka	Bangladesh	China	Afghanistan	Iran
2016	32	34.61	28	25	25	20	25
2017	31	34.61	28	25	25	20	25
2018	30	35	28	25	25	20	25
2019	29	30	28	25	25	20	25
2020	29	30	28	25	25	20	25
2021	29	30	24	32.5	25	20	25

Benefits from Direct Tax Reforms

- Withholding Taxes at Import/export stage, utilities and on non-income transactions gradually reduced; 1st year by **20%**, 2nd by **40%** and third by **50%.**
- Reduction in WHT would bring an economic growth of direct taxes by **0.14%** in GDP (PIDE, 2020).
- Policy gap of Rs. 424 Billion (FBR expenditure reports); reforms leads to **10%** reduction; focusing on exemption from total income category
- Compliance gap (FBR tax gap reports) Rs. 730 Billion; reforms leads to 5% reduction (mandatory filing as per income tax ordinance 2001).

Direct Tax Reforms to result in higher tax revenue

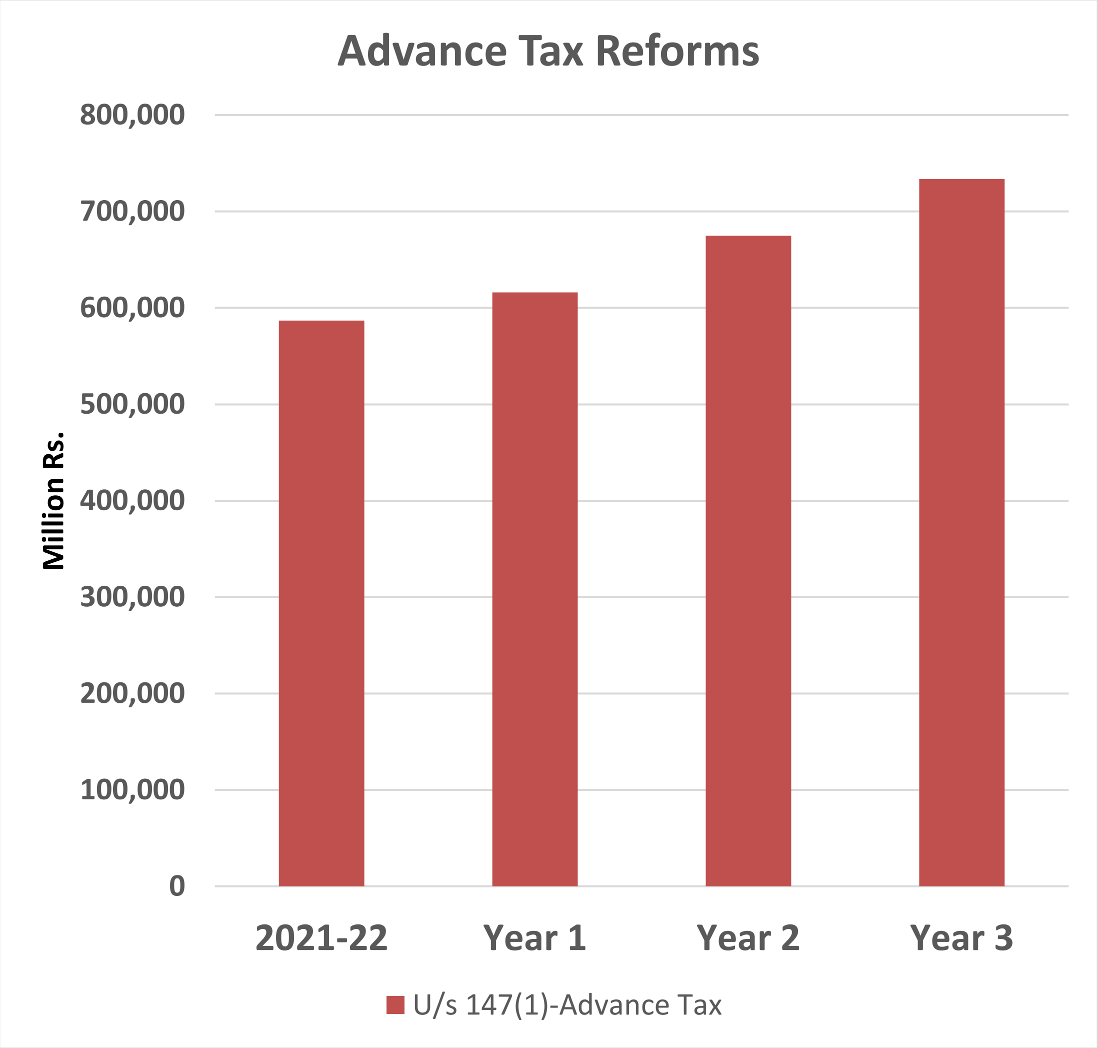
- Individual/AOP/Companies tax collection with returns would increase because of:
  - Filer non filer distinction abolishment
  - Ease of filing of returns,
  - Reduction in WHT and other reforms
- Revenue in this head would increase by **5%** in first year, **15%** in second and **25%** in third.



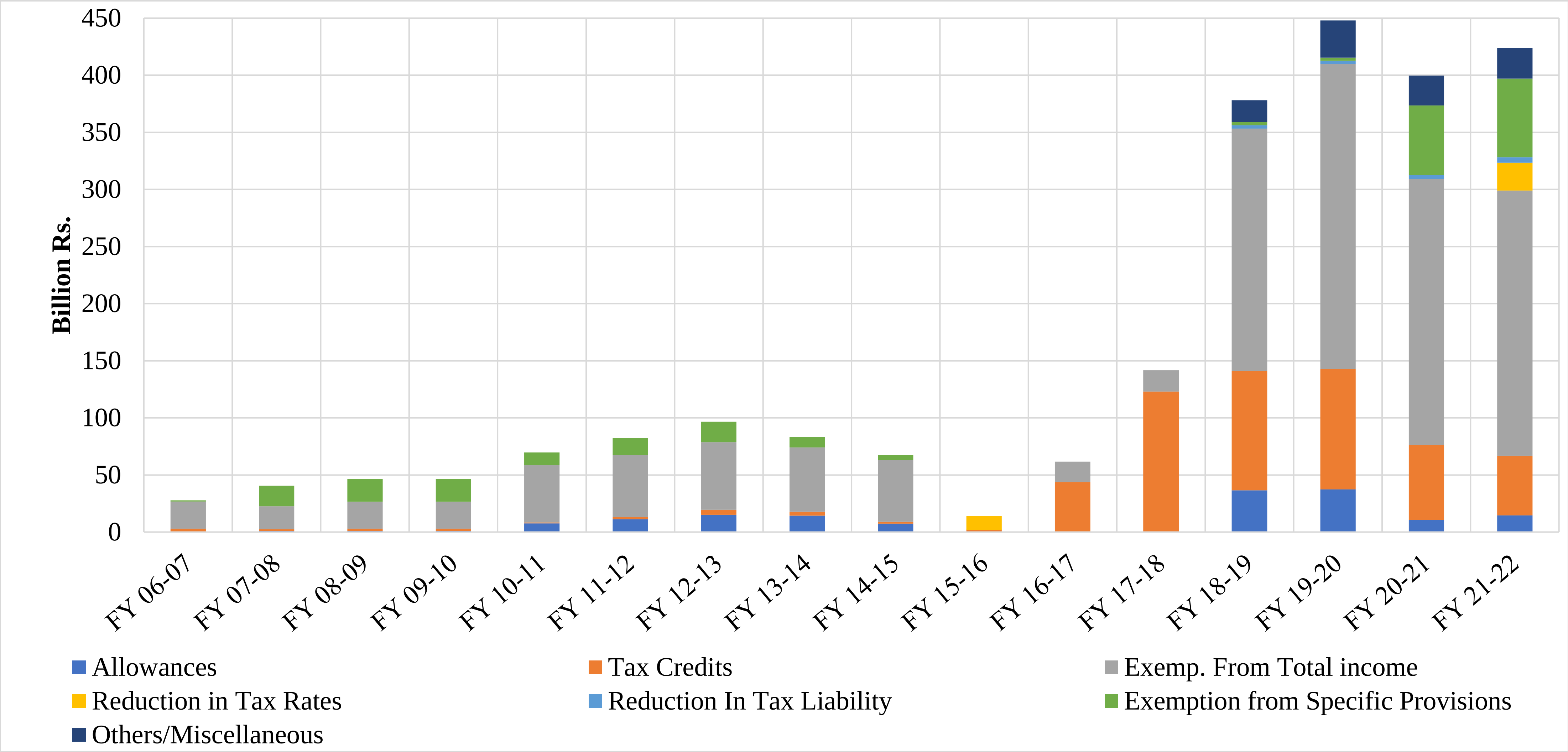
Advance tax collection will increase

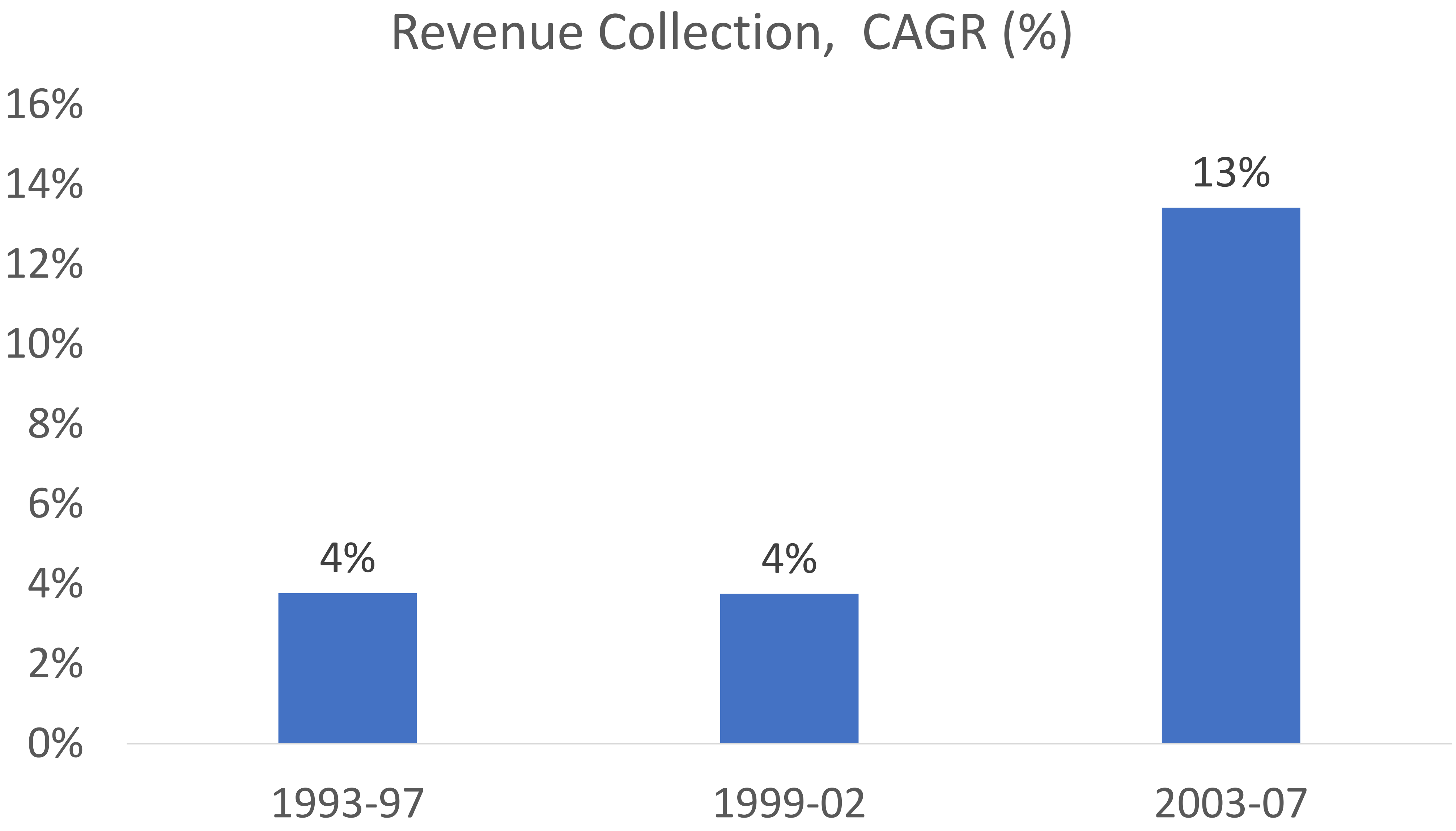
Advance Tax (US-147(1)) would increase by **5%** in first year, **15%** in second and **25%** in third owing to:

- Withdrawal of Minimum tax and Turnover tax regime,
- Rate rationalization on Sole Proprietorship/AOP/ Corporate
- More corporatization



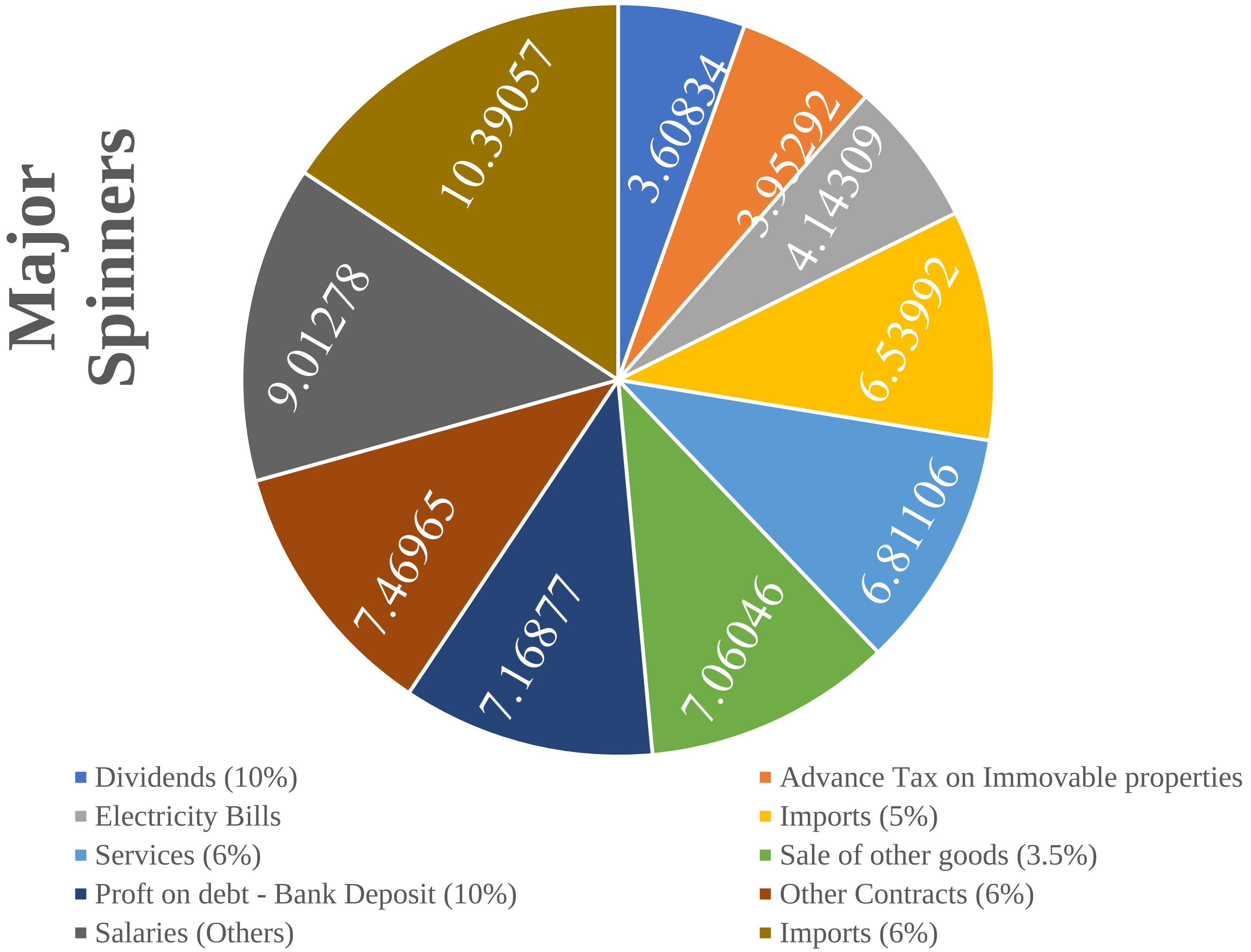
Income Tax Expenditures FY 2006-22




Revenue Collection, CAGR (%)
16%
14%
12%
10%
8%
6%
4%
2%
0%
4%
4%
13%
1993-97
1999-02
2003-07

Withholding Tax

No. of Goods	88
Total amount	Rs. 1,237.338 Billion
No. of Goods Contributing below 1%	45
Amount Contribution below 1%	Rs. 11.275 billion
No. of Goods Contributing above 1%	43
Amount Contribution above 1%	Rs. 1225.480 billion
Top 10 (%age)	66.15%



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