How GIS Technology Can Bridge Loopholes In Real Estate Taxation - The Friday Times - Naya Daur

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Pakistan is facing rapid urbanisation. According to a World Bank report, Pakistan has the highest rate of urbanisation in South Asia. Population Census 2017 also highlights that 36.4% live in urban areas. Moreover, UN Population Division estimates that, by 2025, nearly half the country's population will live in cities. Due to this rapid urbanisation, Pakistani cities face tremendous challenges in municipal financing services and civic amenities due to low revenue collection from taxation. Scattered evidence suggests that property tax is a significant chunk forming 28% of the total tax collection in Pakistan.

Unfortunately, incorrect valuation of properties, inefficient administration, exemptions of properties, and poor coverage all contribute to low property tax collection in Pakistan. People tend to find more loopholes in the taxation system to either evade tax altogether or pay the lowest possible amount. For instance, the DC rate is the property's official value decided by the government. Most of these rates need to be updated. Hence, people undervalue their properties to save taxes. Another example of how people evade tax is when people would declare property they have rented out as property under their use, hence, saving taxes on the rental income.

One important reason for low property tax collection is considering property dealings withholding tax is of utmost importance in addition to Capital Value Tax and Stamp duty. It is a federal tax that must be paid both by the buyer and the seller. According to the Excise Taxation and Narcotics Control Department, the tax rate for filer buyers is 2% and 4% for non-filer buyers. The withholding tax rate is high when compared to other developing countries. With high corruption levels in Pakistan's taxation department, people tend to evade this tax. Also, most property buyers are non-filers, so they avoid paying WHT because of their excellent relations with the tax collector. The high tax rate and corruption contribute to meager Withholding Tax collection. We recommend that the filer and non-filer tax rates be decreased by 1%. Due to this, the taxpayer's burden will reduce, and the time to pay taxes will increase, benefitting the taxpayer and increasing the tax base. A lower tax rate would incentivize both the filers and non-filers to pay their taxes. Moreover, the withholding tax in Pakistan should be progressive. A flat tax rate system decreases the potential tax collection. The revision of WHT according to area categories might increase tax collection. However, the suggested WHT reforms would increase the tax base, and the entire group provided the same level of corruption in this department.

Furthermore, the Capital Gains Tax is a crucial tax when it comes to property taxes in Pakistan. It is a federal tax to be paid by the seller. When the seller makes a profit by selling a property, they are taxed on the gain earned. According to the Finance Act imposed in 2017, the Capital Gains Tax is imposed on the seller if the property is sold within three years of its purchase. The tax rate charged for the first year to the seller is 10% if the property is sold in the first year, 7.5% in the second year, and 5% in the third. However, no tax is charged on the profit if the property is sold after that. This is a very inefficient strategy for a country struggling to collect project finances. In Pakistan, people generally wait for three years and then profit by selling the property. This period needs to be increased. Increasing the period from three to five years will increase the probability of taxing the profit. This is because that people now would be more willing to pay taxes after earning a profit rather than not earning a profit for five years.

To cope with these issues, the government needs to widen the tax net to help us increase tax collection. For instance, people often declare a property they rented out to someone as owner-occupied to save taxes. We should remove the discrepancies between the two tax rates. In that case, we will increase tax collection and reduce the tax evaded from the economy. Unfortunately, our property valuation system has also become outdated. While the use of new technology, such as (GIS), has improved the coverage and capture of built-up areas and improved the accuracy of locational classification, the valuation of properties continues to pose a challenge. Opaque property markets and a lack of accurate sources of information on property capital or rental values imply that the property tax base needs to be more valued. Properties are valued at the DC rate according to the category of the area they are in. The actual value of the property may have skyrocketed, but the official value of that property remains less. So, there is a need for market-based, mass property valuations such as computer-assisted mass appraisal (CAMA) can be excessively complex for the actual property valuation.

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