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Sindh's reliance on a single tax grows

By Kazim Alam

KARACHI: Presenting the Sindh budget for 2010-11, then finance minister Murad Ali Shah had termed the newfound right of the province to collect sales tax on services a "momentous achievement" for the ruling party that "won this with serious and persistent efforts".

In the seven budget speeches that followed, Mr Shah would repeatedly laud the up-to-par performance of the Sindh Revenue Board (SRB), the body set up exclusively to collect sales tax on services in 2010.

Indeed, the SRB has outperformed other tax-collecting agencies in the province by a wide margin. Its collection target increased from Rs25 billion for 2011-12 to Rs100bn for 2017-18. This translates into an average annual growth rate of 26 per cent over the six-year period.

Meanwhile, provincial revenues from other taxes increased only 10.4pc annually over the same period.

In simple words, the Sindh government is getting increasingly dependent on sales tax on services, which is an indirect tax. Almost 54pc of total provincial tax receipts are expected to originate as sales tax on services next year.

Speaking to *Dawn*, Sindh's former caretaker finance minister Shabbar Zaidi said the government's growing reliance on a single indirect tax is not a healthy practice. He said its rate should instead be brought down by half to 7.5pc.

He added that this tax should be imposed only on those services that are availed by well-heeled people. "Sales tax on services should have a minimal impact on the lives of ordinary folk," he said.

Currently, the tax applies to a broad range of services, such as advertising, customs agents, franchise service providers, restaurants, property developers, insurance providers, shipping agents and telecommunication service providers.

Ali Salman, managing director of Islamabad-based economic policy think tank PRIME Institute, said the Sindh government's growing reliance on sales tax on services creates two problems. One, the duplication of sales tax collection because companies that operate nationally have to pay it to more than one provincial government.

And two, it prevents the government from taking bold tax measures, such as enhancing the collection of direct taxes like agricultural income tax.

The share of direct taxes in total tax receipts of Sindh is less than 7pc for the next fiscal year. The estimated share of the tax on agricultural income in total tax collection is just 0.5pc.

"Pakistan remains one of the very few countries where the government's reliance on indirect taxes surpasses (its reliance on) direct taxes by a big margin," Mr Salman said, adding that such indirect taxes increase inflation and hurt low-income households disproportionately.