

## Sustainable Development through Effective Tax Governance

Ifaza Waheed\*

Technical Advisor Taxation, The German Development Partner (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH), Lahore, Pakistan

### Abstract

The objective of writing this paper is to share the two practical examples of the success stories that resulted in a developing country, Pakistan regarding boosting the tax revenues. The tax revenue figures of Punjab Revenue Authority (PRA), which is one of the Revenue Authorities in Pakistan, escalated vigorously by adopting effective measures in tax governance. The tax revenue trend of PRA enhanced exceptionally by developing and strengthening the capacities of Public Sector Withholding Agents in Pakistan through conducting awareness workshops for them in major cities. The numerical evidence shows an increase of 427% from the quarterly target assigned in the last quarter of the financial year 2016 in the public sector withholding tax figures of PRA. However, the untapped service sector of Beauty Salons in Pakistan has also shown an overwhelming tax payers' response after these entrepreneurs were educated through conducting awareness workshops for them as well. The tax revenue collections of the Beauty Salons sector in the financial year 2016 has increased by 170.4% from the previous financial year. Though quite simple, this endeavour of The German Development Partner, a German technical Cooperation, has made a remarkable effort for achieving sustainable development through enhanced capacity building of the citizens. This successful venture of conducting awareness workshops for the taxpayers as well as for the withholding agents has proved to be effective as the department is now able to roll over this activity on its own at District and Tehsil levels. This the German Development Partner innovative measure for boosting revenue of sales tax in services sector in Pakistan is worth noticeable and can be adopted by any other developing country for promising results.

**Keywords:** Tax revenue; Punjab revenue authority; Tax governance; German technical Cooperation; taxpayers

### Introduction

Pakistan is one of the developing countries in the world whose tax to GDP ratio is alarmingly low especially at the provincial level. It is the 6<sup>th</sup> most populous country in the world but still its tax to GDP ratio was only 9.4% in the year 2014-2015 due to deficit in the revenue collections. In order to improve this ratio, through increased collections of tax revenue, efforts have to be made at all levels of Revenue Collecting Authorities for achieving the budgeted target. From the analysis of the low tax revenue collections by Punjab Revenue Authority for the financial year 2014-2015, it was evident that the Revenue Authority was unable to achieve its budgeted target specifically for the Public Sector Withholdings due to the lack of technical knowledge and competency of the Public Sector Withholding Agents. In order to effectively achieve the budgeted target, The German Development Partner, being one of the esteemed development partners, felt the need of intervention to help PRA in achieving its target along with the long-term sustainability in the revenue figures. Conducting the awareness workshops for the public sector withholding agents is the method used as a soft approach in major cities of Pakistan [1-3]. The untapped sector of Beauty Salons with huge revenue potential was also brought into the tax net. One of the strategies devised by the German Development Partner for the smooth inclusion of this sector into the tax net is to educate the female entrepreneurs about their obligations and rights through organizing the awareness workshops for them. The two success stories of effective tax governance are briefly discussed below.

### Success Story 1

#### Boosting revenue by developing capacities of withholding agents

Tax revenue as an integral percentage of Gross Domestic Product (GDP) is alarmingly low in Pakistan - particularly at the provincial level - indicating that tax bases are not being utilized to their full potential. In order to improve this situation and to bring productive reforms in

the field of taxation, authorities responsible for administering taxes must be strengthened for long-term sustainability. For this purpose, the German Development Partner supports the Punjab Revenue Authority (PRA) and the Khyber Pakhtunkhwa Revenue Authority in strengthening its capacities in order to effectively perform its core functions and expand its tax bases [4].

Over the past several months, the German Development Partner has jointly planned and organized workshops for withholding agents in cities of Lahore, Gujranwala and Faisalabad in Punjab and Peshawar and Abbottabad in Khyber Pakhtunkhwa provinces. The objective of the workshops is to train withholding agents and to make them aware and clear about their role and responsibility when it deals with the provincial Sales Tax on Services. In the beginning, the workshops focused on training of public sector withholding agents but recently this venture has also been extended to the private sector in Punjab, which has a huge revenue potential. There are plans to expand it into the private sector in KPK in the near future [5].

Withholding agents play an important role for provincial Revenue Authorities as they are directed to withhold the sales on any service which is procured by the government entity or private company for which it works. It is essential for the withholding agents to effectively comply with this obligation by understanding how they should perform their duties e.g., what services are subject to what rates, how to file withholding documentation with the Revenue Authorities etc.

**\*Corresponding author:** Ifaza Waheed, Technical Advisor Taxation, The German Development Partner (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH), Lahore, Pakistan, Tel: +92-333-4552651; E-mail: [ifazawaheed@gmail.com](mailto:ifazawaheed@gmail.com)

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Numerical evidence from both Punjab and KPK indicates that these workshops have had a large impact in terms of increases in withheld revenue. In Punjab, for example, revenue withheld from public sector withholding agents in cities where workshops have been held has more than tripled. In KPK, recent figures reveal a similar trend.

An added benefit of these workshops is that they tend to attract a fair bit of media attention as evidenced by wide coverage in print, electronic and social media which serves to promote the Revenue Authorities throughout the provinces. As both PRA and KPRA are young organizations, having been established in 2012 and 2013, respectively, it is very important for them to actively reach out to the services sector. The workshops for withholding agents have proved to be a valuable platform for Revenue Authorities to educate taxpayers and spread the messages about the recent provincial Sales Tax on Services [6,7].

**Results**

The overall impact of this engagement can be viewed numerically in terms of revenue collection figures shared by the Punjab Revenue Authority for the financial year 2015-2016 as follows: (Table 1)

From the above results presentation, it is evident that in the first quarter tax revenue collection was only half of the quarterly target assigned. However, after the German Development Partner intervention since the second quarter, the results were remarkable and the trend is escalating till date.

**Success Story 2**

**Women empowerment by educating Beauty Salons entrepreneurs (Figures 1 and 2)**

At first thought, few would think to associate taxation with beauty. But the two can be combined as evidenced by the collaboration of PRA and SGGP in the Beauty industry in Punjab.

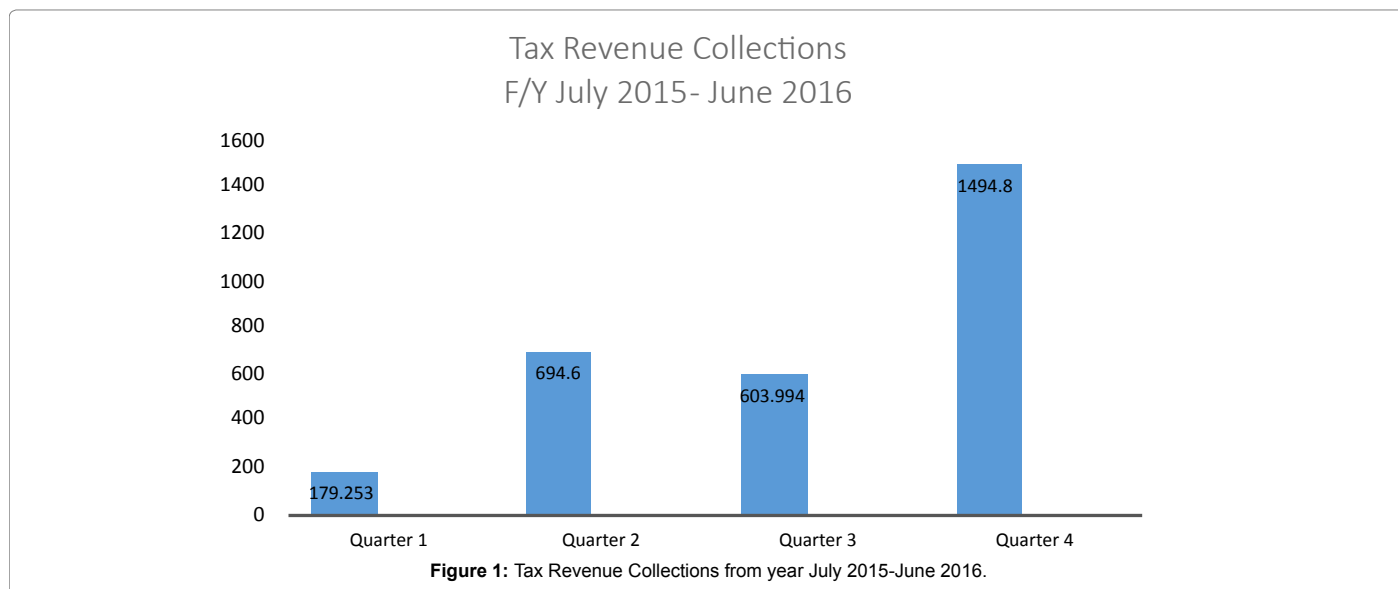
The Beauty Salon Industry is abundantly spread throughout the province of Punjab, particularly in larger cities such as Lahore and Faisalabad. Beauty Salons provide a variety of different services such as haircut, manicure, pedicure, bridal make-up and much, much more. As such, Beauty Salons are liable to pay the Sales Tax on Services as per second schedule of the Punjab Sales Tax on Services Act. What is even more exciting is that this sector is dominated by female entrepreneurs whereas almost all other sectors in Pakistan are dominated by males [8].

Until recently, the Beauty Salon industry has remained largely untouched by the Punjab Revenue Authority. Recognizing the large revenue potential in the sector, it was decided to devise a strategy to support the smooth inclusion of this service into the tax net. One of the measures was to organize awareness events for the industry in Lahore and Faisalabad.

These awareness sessions brought together important players in the Beauty industry and provided a platform for them to be educated about their obligations to comply with the Sales Tax on Services Act. It also included sessions for Salon owners to learn how to register with the PRA, how to file returns and how to calculate the correct amount of Sales Tax. Finally, it provided a platform for Salon owners to engage with PRA officers and to ask question and/or raise concerns.

	Quarterly target (Rs. in million)	Revenue collections (Rs. in million)	%age of quarterly target assigned	%age increase from quarter 1
Quarter 1	350	179.253	51.2%	-----
Quarter 2	350	694.6	198.5%	387.5%
Quarter 3	350	603.994	172.6%	336.9%
Quarter 4	350	1494.8	427.1%	833.9%

**Table 1:** The overall impact of this engagement can be viewed numerically in terms of revenue collection figures shared by the Punjab Revenue Authority for the financial year 2015-2016.



**Figure 1:** Tax Revenue Collections from year July 2015-June 2016.

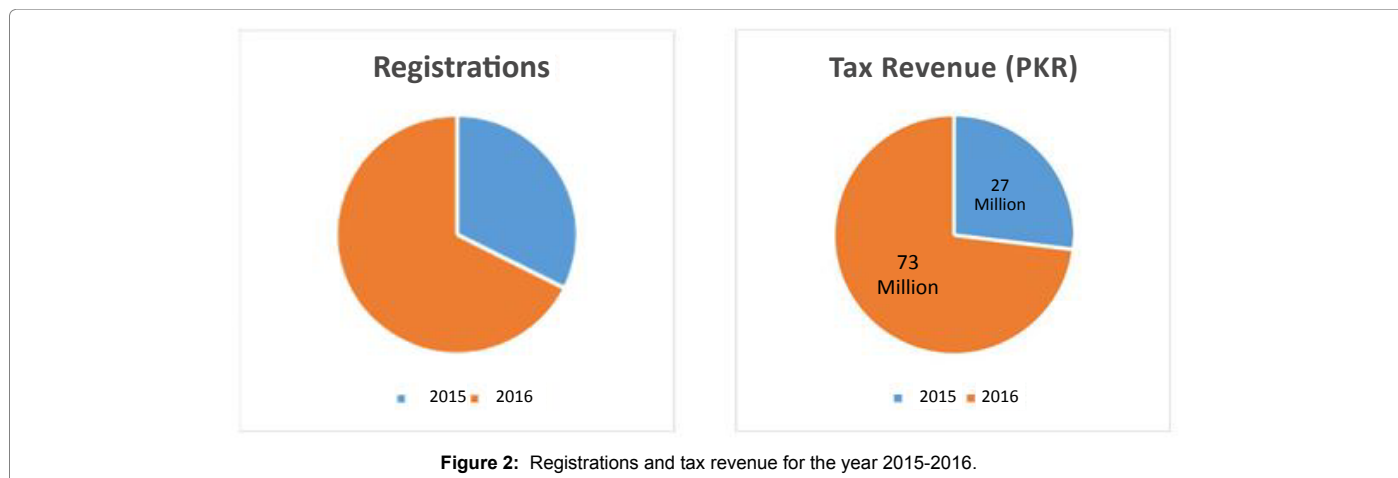


Figure 2: Registrations and tax revenue for the year 2015-2016.

The first workshop took place in Lahore in June 2016. It was attended by a number of leading female figures in the province who are also engaged in the Beauty industry. The chief guest was the Honourable Finance Minister of Punjab, Dr. Aisha Ghous Pasha. It was a taxation workshop where the majority of participants were women, which is indeed a worldwide rarity! A second workshop took place in Faisalabad in August 2016 where the chief guests were female members of the Provincial Assembly [9].

The Beauty Salon awareness events generated huge media interest as evidenced by the dozens of newspaper articles in addition to TV segments and significant social media buzz.

Since Beauty Salon operators are mostly female entrepreneurs, giving consideration to women empowerment, it made our work even more effective and achieved more sustainable results. So this measure also contributed towards promoting gender equality and women empowerment through educating female entrepreneurs in particular and fostering a culture of compliance among them.

It's time for people to appreciate the true beauty of taxation!

### Results

The comparative analysis of the Beauty Salons Sector regarding registration and tax revenue collections is shown in the table and charts below (Table 2).

The number of registered taxpayers increased by **108.5%** and the revenue collections increased by **170.4%** since the German Development Partner innovative measure.

The current number of registered Beauty Salons is only a fraction of all Beauty Salons running in Pakistan. So, continuing conducting these awareness workshops for the Beauty Salons Sector in other cities will definitely contribute towards better tax administration through enhancement in tax bases and increased tax revenue collections [10].

Creating awareness is the very first step on the way to smoothly incorporate the Beauty Salons Industry into the tax net. Follow-on measures will include one-on-one registration and return filing assistance and the possible roll-out of a Salon Invoice Monitoring System (SIMS), which will be a web-based monitoring tool enabling real time capturing and monitoring of invoices issued by the salons to ensure proper declaration of Punjab sales tax on services collected for promoting Sales Tax Compliance in the Beauty Salons industry.

Particulars	Until June 2015	Until September 2016
Number of Registered Taxpayers	129	269
Revenue Collection in PKR	27 Million	73 Million

Table 2: The comparative analysis of the beauty salons sector regarding registration and tax revenue collections.

On the back of these workshops, the Salon industry has also successfully established their first hair and salon association for taxation which is set to meet with senior PRA officials on a regular basis serving as the first ever platform to voice out and resolve their issues directly with the Government Authorities, thus, bridging the gap between the state and citizens [11].

### Conclusion

The joint measure of the German Development Partner and PRA of conducting awareness workshops for both the Public Sector Withholding Agents and Beauty Salons Sector had a huge impact in terms of increased tax revenue. It also provided a valuable platform for Revenue Authorities to educate taxpayers and spread the messages about provincial Sales Tax on Services. The results were remarkable both quantitatively and qualitatively. The revenue trend of Public Sector Withholdings showed an increase of 427% from the quarterly target assigned. The revenue figures of the Beauty Salons sector showed an increase of 170% as compared with the previous financial years'. The overall impact of this undertaking has stemmed three qualitative positive outcomes. Firstly, these workshops attracted a fair bit of media attention which served to promote the Revenue Authorities throughout the provinces having been established recently. Secondly, after collecting more than the budgeted revenues, the PRA became the highest revenue collecting department in Punjab fostering the positive image-building and visibility of this newly established Authority. Thirdly, this innovative measure has also proved to be the genuine capacity building for sustainable development as now the Authority is rolling out this activity on its own by conducting workshops as well as educating taxpayers and Withholding Agents at District and Tehsil levels. Hence, it is concluded that the results obtained from the two success stories proved to be valuable and practicable therefore by adopting such effective measures regarding tax reforms, any developing country can achieve favourable results.

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