

Note on Sub-Themes under ICF Round on PFM & Fiscal Space-Khyber Pakhtunkhwa

Sub-themes for 1 st Round of ICF on PFM & Fiscal Space	
1	GIS mapping of properties for the purpose of determining true tax potential
2	Establishing e-payment gateway
3	Implementing Invoice management system for restaurants (and other services)
4	Determining tax-potential and tax-mechanism of E-commerce and business transactions under digital economy
5	Determining true tax-potential and appropriate taxation mechanism of Telecom Sector
6	Innovative ideas for disaster risk financing, planning and disbursement

1. GIS mapping of properties and services for the purpose of determining true tax potential

Problem Statement: GIS mapping is used in many countries by revenue authorities for mapping and taxing properties and services accordingly. How can this technology be utilized to support Excise and Taxation Department and KPRA in making revenue for realizing true potential of tax on urban immovable properties?

Description: In many developed and developing countries, tax collection authorities (central, provincial as well as local) have linked Taxation system with GIS based mapping. GIS technology supports linking data visually on a digital platform, collecting easy and accurate information (such as exact location, covered areas, plot area etc) reduces need of field visits, and supports making better decisions. GIS tools such as Google Map Extractor helps in identifying properties and service providers (such as restaurants, beauty parlors, wedding halls etc) as per desired parameters, that could facilitate in broadening of tax base for property tax, tax on services etc. Another important aspect of the GIS data is that it could be used for multiple purposes by different departments. Given these features, GIS has proved to increase realization of property tax, tax on buildings and land development, and taxation on services.

The proposed intervention under the Round 1 of Innovation Challenge Fund will be piloted in major commercial centre(s) of KP with an objective to determine true potential of Urban Immovable Property Tax. Since the major commercial center(s) are also a hub for provision of services, the mapping exercise shall also have an additional output to determine what services are being provided in the area. This information will be useful for the Khyber Pakhtunkhwa Revenue Authority for bringing service providers in sales tax net. Yet another important aspect of the proposed solution shall be its scalability and diversification to be used for other areas; and for use by other revenue collecting authorities such as local government department for its relevant taxes.

2. Establishing e-payment gateway

Problem Statement: How can information technology make payments to government make more efficient, that would potentially lead to increased government revenue collection and reduce opportunities for corruption?

Description: Citizens make payments to various government tiers (Federal, provincial and local) under various tax and non-tax heads. Most of the payments such as excise duty, sales tax, license renewal fee, rents etc are paid at offices or bank counters. This system not only discourages citizens from making payments as it involves a cumbersome manual process, travel and waiting in long queues, but it is also open to corruption due to human interaction and direct cash handling. This system also makes doing business difficult, raises the cost of doing business and ultimately discourages investments. At the moment, no provincial or local tax is payable online which causes significant hassle for the citizens and revenue losses to the government. Given the success of using information technology to facilitate payments, establishing an e-payment gateway will eliminate/reduce human interaction, reduce time spent in making payments, and improve ease of doing business hence improving investment and ensuring timely availability of accurate revenue estimates.

The proposed solution will be piloted for the Excise and Taxation Department of Khyber Pakhtunkhwa to collect revenues using electronic payment methods. However, the solution itself shall be “department neutral” with the capacity to be adopted by other government departments such as KPRA and Local Government Department.

3. Implementing Invoice management system for restaurants (and other services)

Problem Statement: Services sector collect sales tax from customers; however, it remains a question as whether the collected tax is properly reported and submitted to the revenue authority or not. How innovative solution could make the collection on sales tax on services (especially restaurants) efficient and transparent?

Description: The rising living standard of people and rapid urbanisation in KP has resulted in rapid growth of service sector in province especially restaurants and food outlets. The sector has significant potential for revenue for the government. However, this potential has not been exploited in the absence of a proper mechanism for bringing restaurants into the tax net. Punjab PRA with technical support from PITB has developed Restaurants Invoice Management System (RIMS) which automatically generates invoices and does real time reporting sales tax to PRA from each sale point. This system has been successfully implemented across Lahore and Faisalabad and is being extended to Rawalpindi Division.

Khyber Pakhtunkhwa Revenue Authority (KPRA) is in the process of approving legal cover for introducing online invoicing system at the Point of Sale (PoS) for the restaurants. Interested applicants are requested to propose as a tech-based solution for enable KPRA for efficient booking of sales tax at the PoS in restaurants. The proposed solution shall have the capacity to be scaled up to other services sector (e.g., hotels, beauty parlors, gyms) for recording sales tax deduction at the PoS. The proposed solutions shall keep in the view the existing business models and practices of the services sectors especially restaurants-such as cash payments, little know-how of technology, lack of 24/7 electricity etc.

4. Determining tax-potential and tax-mechanism of E-commerce and business transactions under digital economy

Problem Statement: E-commerce is emerging as a viable sector of economy in Pakistan. Given the nontraditional nature of business in e-commerce, taxing such enterprises is a challenge. What are the possible solutions for enabling government to determine true tax potential of e-commerce? What are the

mechanism to identify and appropriately tax e-commerce portals providing services in Khyber Pakhtunkhwa?

Description: Estimated volume of e-commerce in Pakistan is USD 1Billion and is soon going to emerge as a big hub for sales of good and services. With the expected introduction of online payment gateways (e.g. PayPal) in the near future, the volume of e-commerce is set to increase which will increase tax potential manifold in the near future. This will also increase the challenge of taxing such business in absence of a comprehensive system. Though e-commerce portals such as daraz.com have been brought into tax net, there is no robust mechanism to tax all of the e-commerce portals providing services in the province. There is a need for innovative solutions for sustainably tackling the ever-evolving challenge of taxing e-commerce. This will not only help in tapping the revenue potential of e-commerce portals but will also help the relevant departments in regulating such businesses and discouraging online scams.

The proposed solution shall help Khyber Pakhtunkhwa Revenue Authority (KPRA) in: (a) determining the true volume of online services; (b) determine true potential of sales tax on services; (c) establish a mechanism to identify e-services portals; and (d) devise mechanism to determine the value of transactions and applicable tax.

5. Determining true tax-potential and appropriate taxation mechanism of Telecom Sector.

Problem Statement: How can services provided by telecom companies be appropriately assessed in order to actualize true potential of sales tax on services?

Description: Telecom sector is the biggest source of revenue for KPRA. However, due to the size and evolving nature of business, technical complexities of the processes, and the myriad types of services provided by this sector, appropriate tax levy on services provided by telecom companies is a perennial issue. KPRA lacks appropriate capacity to fully appreciate the telecom companies' business processes and therefore it is not known whether it is actualizing full potential of sales tax on these companies. Although, KPRA, with assistance from GIZ, has already done telecom companies' processes assessment, the report is not comprehensive enough to cover multiple aspects of the evolving nature of business, and innumerable aspects of services. Yet, this report can serve as a foundation for identifying the true tax potential of telecom companies and preparing policy and operational recommendations to KPRA. There is also a need to provide handholding to KPRA for bringing policy and operational level changes to ensure improved taxation on pilot bases.

The proposed interventions shall help KPRA in developing a dynamic framework to assess the volume of the ever-evolving telecom services; and devise mechanism for determining true value of the services provided by telecom companies.

6. Innovative ideas for disaster risk financing, planning and disbursement

Problem Statement: There are very limited existing processes of disaster risk planning and finance; and developing credible disbursement systems. What are the ways of integrating human identity data and technology to develop systems that can help towards planning, financing and accurate disbursement of funds and support-packages to help people in distress?

Description: The outbreak of COVID-19 globally and in Pakistan has brought governments and international leadership to face certain deadlocks on matters of policy and designing and implementing response. The governments of Punjab and Khyber Pakhtunkhwa are no exception and face some critical challenges in designing and implementing relief packages that are well targeted and effective. Underlying issues include limited processes of disaster risk planning and finance and developing credible disbursement systems. The SNG-II Innovation Challenge Fund is seeking to help pilot innovative ways by integrating human identity data and technology to develop systems that can help towards planning,

financing and accurate disbursement of funds and support packages to support people in distress. The ideas may include integration of technology systems, traceability, tracking and disbursement mechanisms as well as swift registration systems of those individuals who have been affected. The ideas may be inspired by the COVID-19, however, should be adaptable to other such natural risks such as floods and earthquakes, etc.