



WORLD BANK GROUP



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# AGRICULTURAL INCOME TAX IN PAKISTAN

# HISTORY



1922

## INDIAN INCOME TAX

The Indian Income Tax Act 1922, adopted by Pakistan at independence, exempted agricultural income from taxation; land revenue continued to be collected till 1997



1973

## AGRICULTURAL PROVINCIAL TAX

Agricultural income was made a provincial tax under the 1973 Constitution of Pakistan, which gave provinces exclusive power to legislate on taxes on agricultural income



1993

## PRESUMPTIVE INCOME TAX

An Agriculture Income Tax (at the provincial level) was introduced in 1993 as a Produce Index Unit based presumptive income tax & adopted in three of the four provinces after an elected government took over



1996

## PROVINCIAL AGRICULTURE TAX

Since 1996-97, all provinces have introduced some form of tax on agricultural land or incomes



## REGARDED AS LAND TAX

In actual implementation, the tax is levied as a land tax and not income tax

# THE AGRICULTURAL TAX GAP

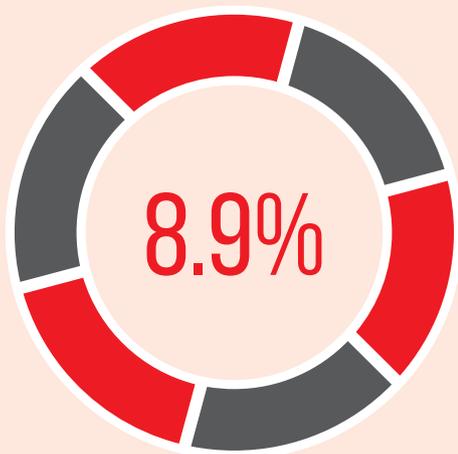
## PERFORMANCE

### Low levels of provincial tax

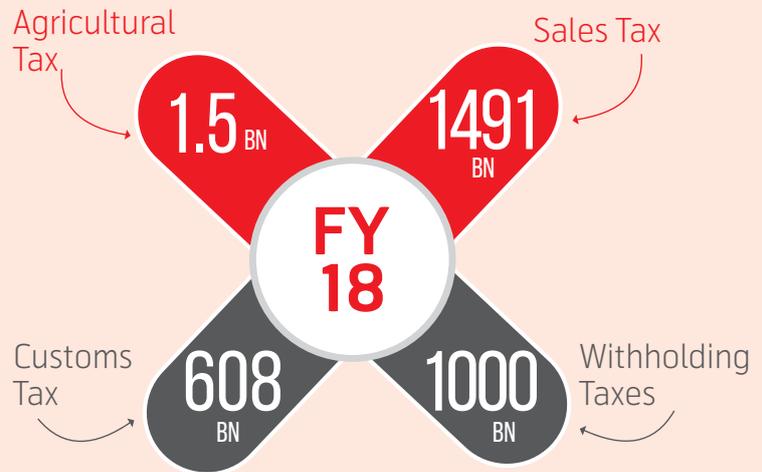


Not more than 0.93% of GDP (FY16)

### Low contribution of agricultural tax to the economy



Share of crops/orchards in GDP is around 8.9% (FY20)



Collection from agricultural tax was Rs 1.5 bn in FY18, while sales tax was Rs 1491 bn, customs Rs 608 bn & withholding taxes almost Rs 1000 bn

Corporate Taxes



64%

64% of all income tax is derived from corporate taxes.

# THE AGRICULTURAL TAX GAP

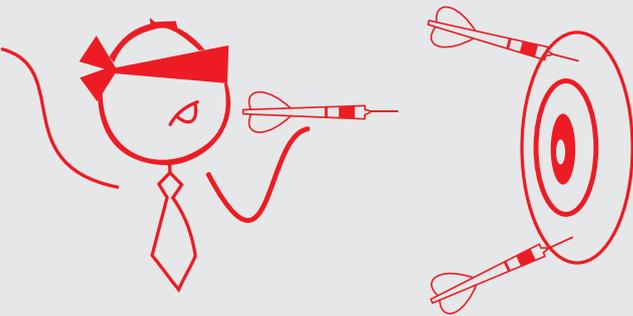
## Main Challenges

# RS

TAX EVASION

### Tax evasion remains high

Due to rate differential, tax payers tempted to declare non-agricultural income as agricultural income



## OUTDATED SYSTEM

### Outdated estimates of income

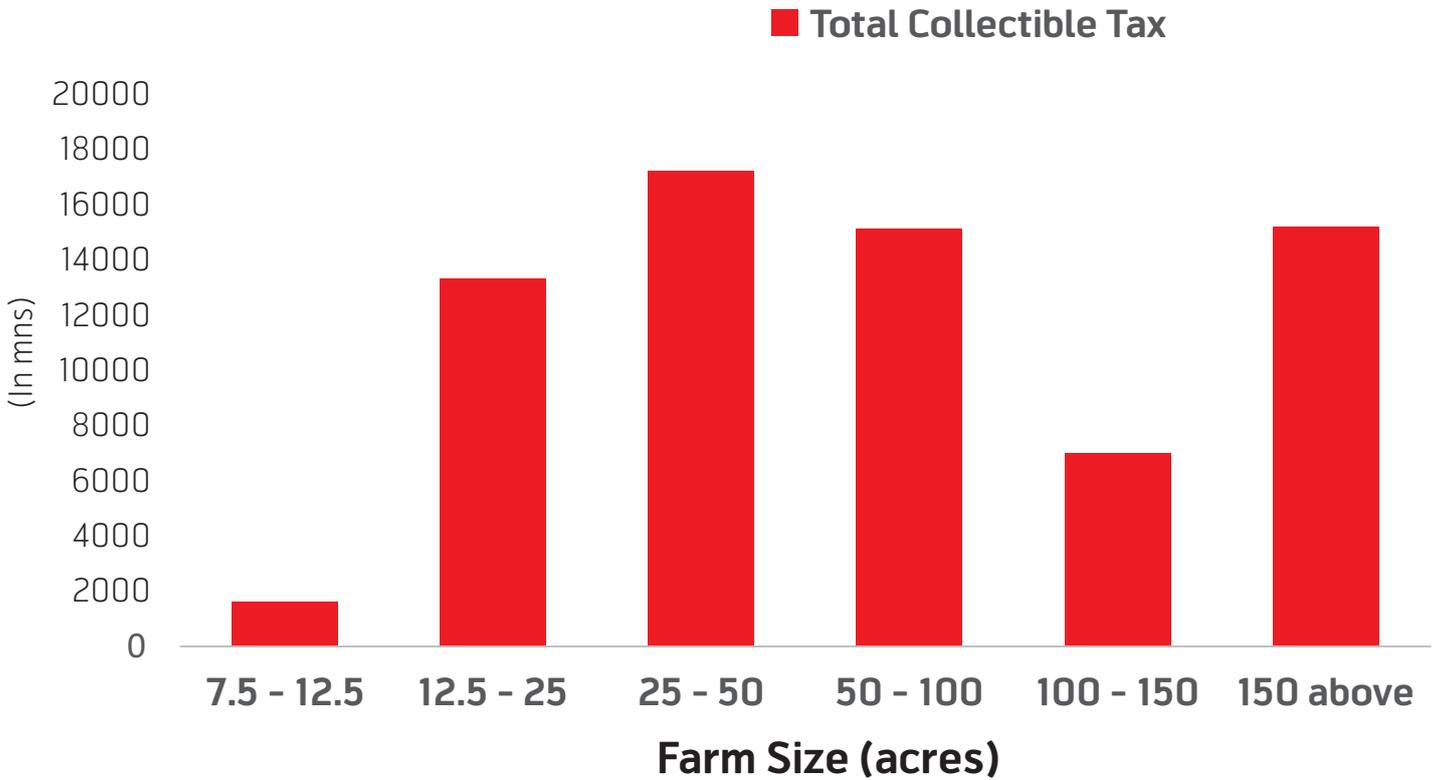
Agricultural income and land tax rates are not revised regularly to reflect changes in the nominal income of farmers and landowners

## Potential

RS. 69.5 BN  
AGRICULTURAL TAX GAP



# AGRICULTURAL TAX GAP ANALYSIS (2018)



FBR'S TAX EXPENDITURE REPORT ESTIMATES

A TOTAL AGRICULTURAL TAX GAP OF

**RS 69.5 BN**

ACROSS FARMS DISAGGREGATED BY SIZE

# WHY TAX AGRICULTURE INCOME?

## LAND TAXATION IS REGRESSIVE

**01** It is price & income inelastic tax

The quality of land is not taken into account

**02**

**03** Taxpayers can divide land among family or business associates to avoid higher tax rate (this is possible with progressive income tax as well, but to a lesser extent)



## AGRICULTURAL INCOME TAX CAN BE A PROGRESSIVE TAX



**01** Permits heavier taxation of those with sufficient ability to pay

Offers exemptions to the poor

**02**

# Why is AIT Collection Low?

## Unreliable Record Keeping

Digitization of land records remains unevenly executed. Previously manual records maintained by patwaris were often unreliable

## Disparate Tax Treatment of Agricultural Income

Lower tax rate on agricultural income encourages declaration of non-agriculture income as agriculture income

## Political Economy Factors

Political influence of land-owners and lack of political will to collect taxes

## Lack of Data-Sharing Mechanisms

No data sharing between federal and provincial governments to verify exact amount of agricultural income earned by tax filer on FBR tax returns

## Weak Provincial Administration

Provincial revenue boards are not equipped to collect taxes & enforce payment

# DIRECTION FOR REFORM

**Strengthen  
enforcement  
through provincial  
tax collection  
agencies**

**Improve  
coordination between  
federal and provincial  
governments to reduce  
tax evasion & improve  
tax collection**

**Shift to  
income-based  
agricultural  
taxation**

**Explore alternative  
options in the short-  
run (data-sharing,  
PIU-based tax,  
withholding tax)**