



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



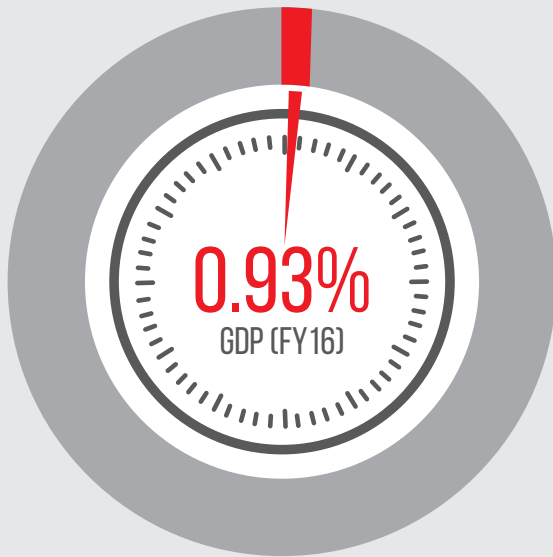
REGARDED AS LAND TAX

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

THE AGRICULTURAL TAX GAP

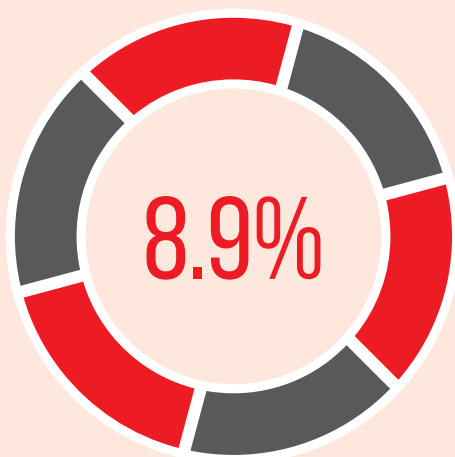
PERFORMANCE

Low levels of provincial tax

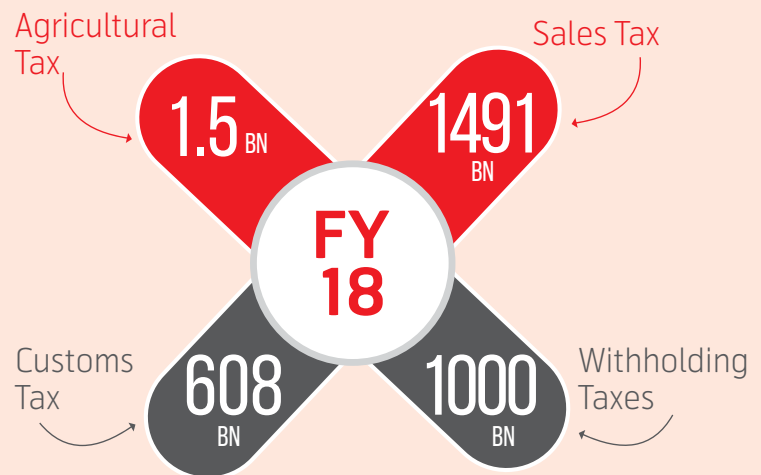


Not more than 0.93% of GDP (FY16)

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.

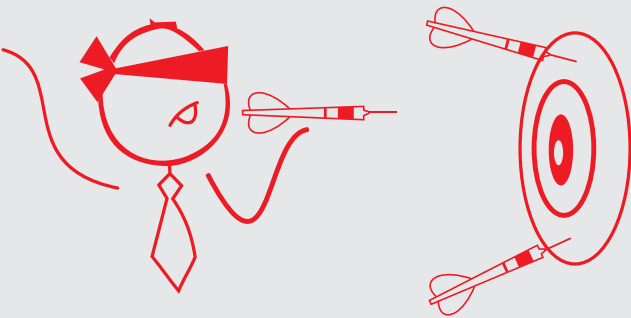
THE AGRICULTURAL TAX GAP

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OUTDATED SYSTEM

Outdated estimates of income

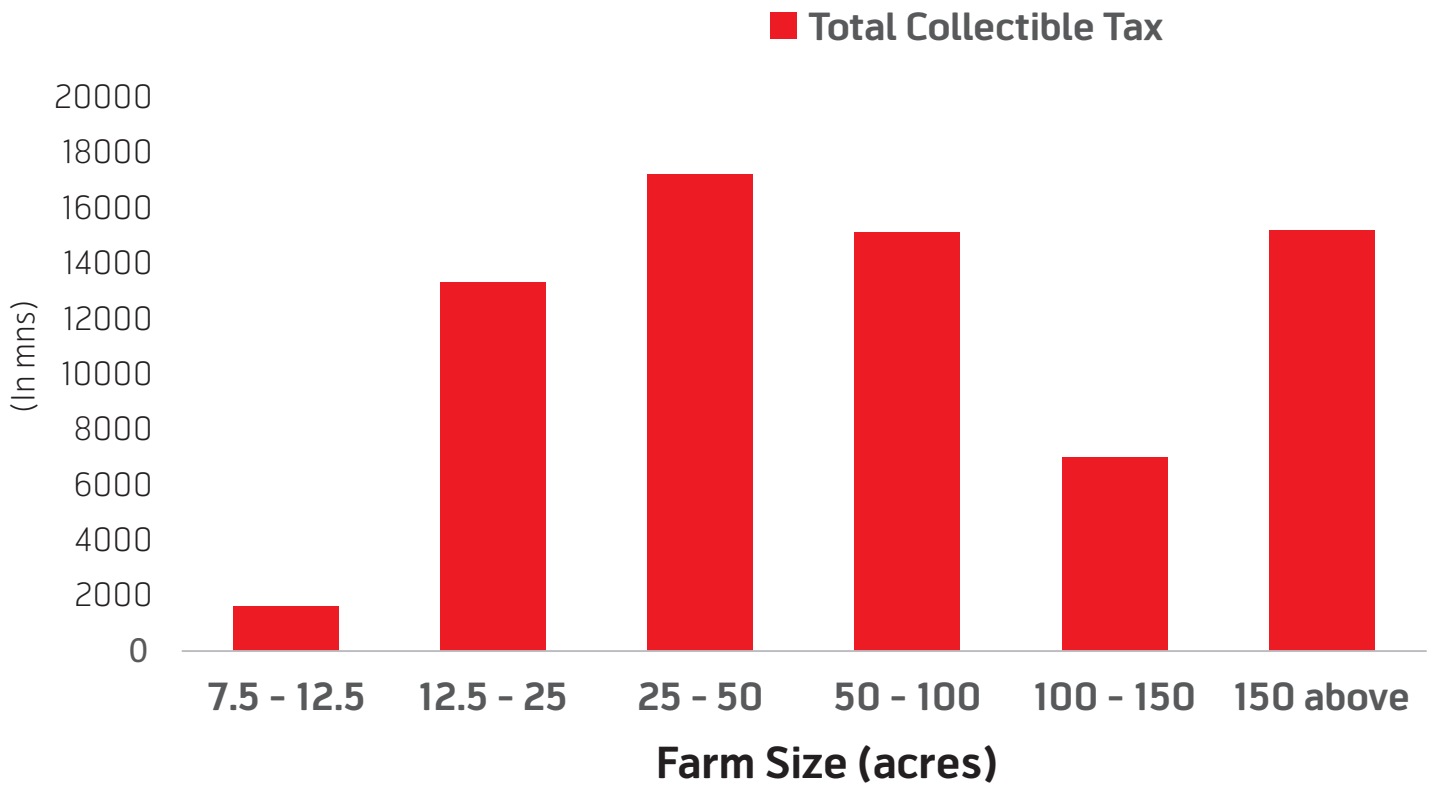
Agricultural income and land tax rates are not revised regularly to reflect changes in the nominal income of farmers and landowners

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)**