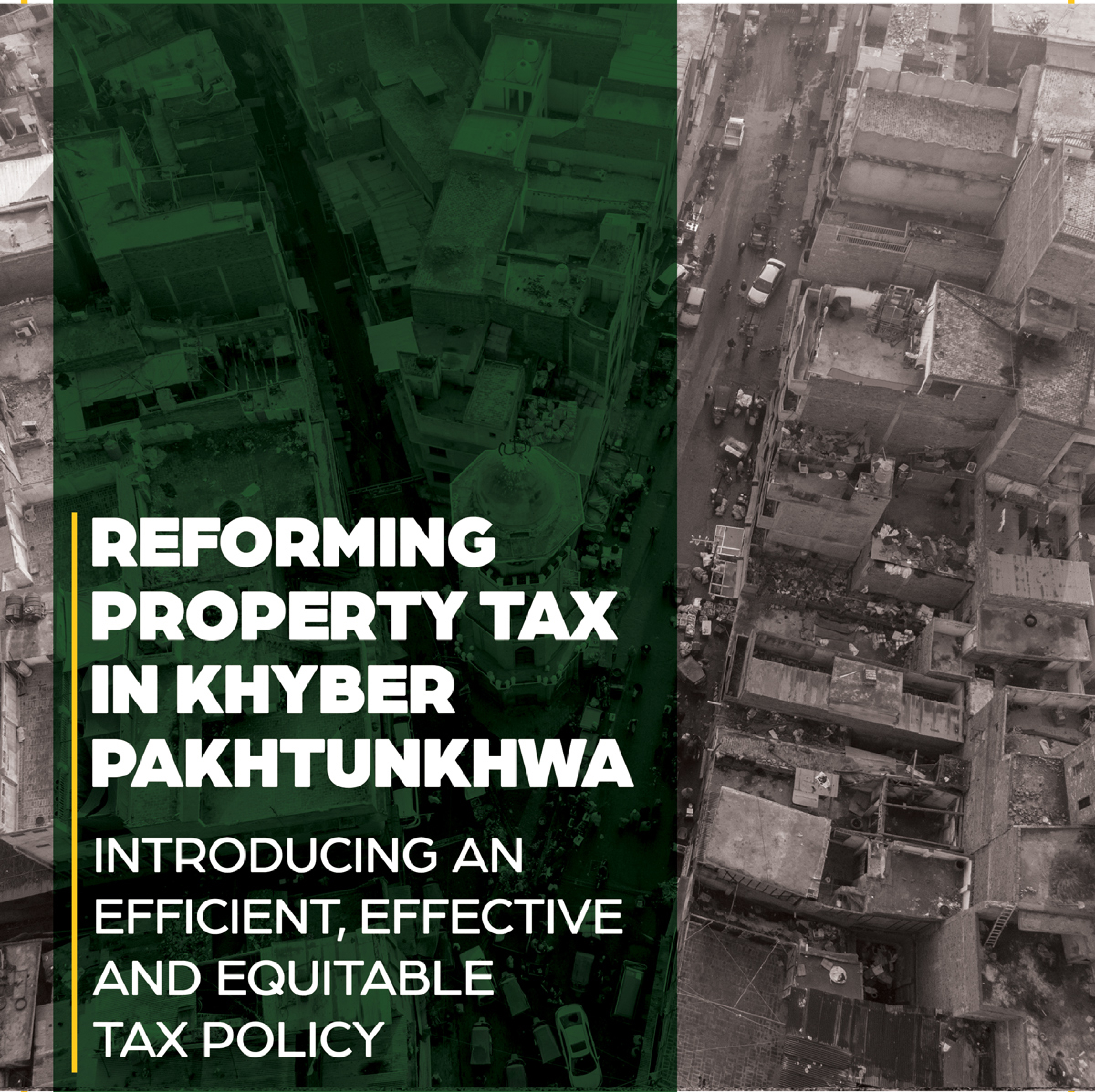

REFORMING PROPERTY TAX IN KHYBER PAKHTUNKHWA

INTRODUCING AN EFFICIENT, EFFECTIVE AND EQUITABLE TAX POLICY

SEED (Sustainable Energy and Economic Development)
Improved Economic and Urban Planning in KP

UKaid
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Adam Smith International
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IGC International Growth Centre

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About the work

This work has been done for Foreign Commonwealth and Development Office (FCDO)'s Sustainable Energy and Economic Development Program in Khyber Pakhtunkhwa (KP), commissioned to Consortium for Development Policy Research (CDPR) through Adam Smith International (ASI).

Cover page photo: Aerial ultra wide view of Cunningham clock tower, Heritage trail with sun rise in the morning I Peshawar, the capital of the Khyber Pakhtunkhwa province of Pakistan I By Doulat Khan

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Message from Chief Minister, Government of Khyber Pakhtunkhwa

Mahmood Khan

Taxes are a vital source of revenue for the government to enable them to provide essential services and finance development projects for their citizens. The Excise, Taxation and Narcotics Control Department has a pivotal role in own source revenue collection for Khyber Pakhtunkhwa, by driving revenues and inculcating a sense of responsibility amongst the citizens towards the country.

This year during FY 2020-21, we at Khyber Pakhtunkhwa are aiming to revitalize the functions of this department by establishing organizational KPIs, enhancing data analytics and utilizing experts in the fields to overcome tax gaps in our various tax streams. I would like to compliment the Excise and Taxation department for the old reforms agenda they have proposed and the steps in this regard that have already been taken. Property tax forms a core component of the overall functions of the department and can drive major revenues for its receipts as well. Property tax is not merely a technical instrument, but it is a substantial revenue factor with strong financial, institutional, and political connotations. Even though property taxation has a long tradition in the province, the UIPT provides for only a small amount of revenue as a share of the provincial GDP.

Hence, we at Khyber Pakhtunkhwa will put in our maximum efforts to optimize these tax and revenue generating streams for the betterment of the province and the country. This note throws light on some of the important steps that the department can take and adapt to bridge the gap between its collection and potential.

Message from Special Assistant to the Chief Minister for Excise, Taxation and Narcotics Control Department, Government of Khyber Pakhtunkhwa

Ghazi Ghazan Jamal

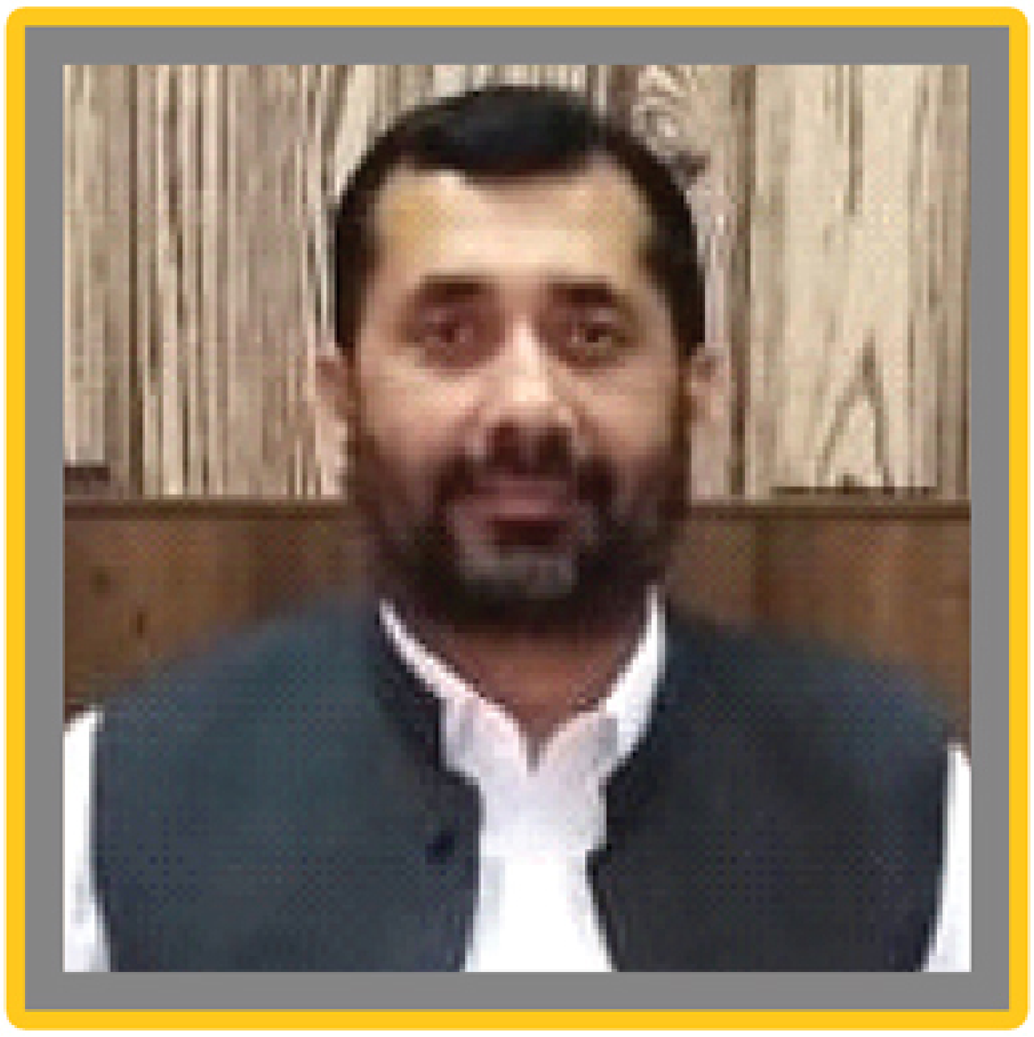
Property sector has grown manifold following rapid urbanization in Khyber Pakhtunkhwa over the last two decades. This growth has created huge demand on public goods and services leading to large deficits in the provision of critical municipal services in cities that government needs to deliver. Urban property taxes are a key fiscal instrument that can ensure the effective provision of municipal services and critical for urban development as 85 percent of revenue collected from urban property tax is transferred to municipal and development authorities across the province. This instrument can help close fiscal deficits by ensuring sustainable financing through an expansion of own-source revenues. In Khyber approximately two percent of own-source revenue over the previous three fiscal years, with substantial revenue potential remaining untapped.

An important factor constraining the public investment response to address deficits in service delivery is the province's weak capacity to raise municipal finances efficiently.
Devolution of service delivery should be accompanied with the expansion of tax base, making property tax a pivotal revenue source and policy lever. Recent policy response by Government of Khyber Pakhtunkhwa has centered around linking property tax collection with service delivery for the citizens to realize the benefits of taxation in the form of public service provision benefit, as well as consolidating the fragmented cities governance.

Evidence based policy decision making linking the provision of public services with receipt of property taxes can improve tax morale, increase accountability of local governments, enhance tax collection, make the development process more transparent, inclusive and strengthen local service delivery.

The major objective for reforming property tax in Khyber Pakhtunkhwa is to unlock additional revenue sources to make urban areas as engines of growth and development. To do so, it is pertinent to bridge the gap between research and policymaking and this policy note is a step towards integrating research findings into policy decisions.

Message from Secretary, Excise, Taxation and Narcotics Control Department, Government of Khyber Pakhtunkhwa



Islam Zaib

Increasing own source revenue is one of the key challenges the governments faces today. Government of Khyber Pakhtunkhwa has initiated reform process to modernize urban immovable property tax (UIPT) collection and strengthen enforcement capacity by enhancing citizen's trust in the tax administration. The process of reforms necessitates assessment of the existing property valuation methods, digitization of data of urban immovable properties and simplification of Increasing own source revenue is one of the key challenges the governments faces today. Government of Khyber Pakhtunkhwa has initiated reform process to modernize urban immovable property tax (UIPT) collection and strengthen enforcement capacity by enhancing citizen's trust in the tax administration. The process of reforms necessitates assessment of the existing property valuation methods, digitization of data of urban immovable properties and simplification of procedures and modes of tax payments for tax payers of Khyber Pakhtunkhwa. While many initiatives have already been undertaken by the provincial government to address these challenges, more efforts will be required to further strengthen citizen's trust in the Provincial tax administration. In particular, the current valuation regime in Khyber Pakhtunkhwa has a number of challenges. Khyber Pakhtunkhwa needs investments to upgrade information capacities and valuation systems that integrate various databases and digitize property tax valuations and billing, yet simplifying the process for paying property taxes for citizens.

Administrative and systemic reforms needed in this direction include a well-designed performance-based HR reforms for tax collectors, simplifying registration and payment processes, lowering compliance costs, and closing the information gaps through digitization, standardization and automation.

This policy note provides a discussion about challenges and key recommendations for the Government of Khyber Pakhtunkhwa to introduce an overarching and holistic reform agenda around property taxes.

Message from Team Leader, Sustainable Energy and Economic Development (SEED) Programme

Hasaan Khawar

Sustainable Energy and Economic Development (SEED) Programme, funded by UK's Foreign, Commonwealth & Development Office (FCDO), is aimed at generating higher levels of public and private investments. In the post-COVID scenario, there is even a more pressing need for greater public investment, but the fiscal space is now highly restricted. This means that if public investment has to increase, SEED will have to work with the government to increase the available fiscal space. This in turn is dependent upon helping government in optimizing its revenues but the revenue mobilization effort should not lose sight of the private sector development and improved urban planning goalposts. The provincial government presently relies heavily on federal transfers, while KP's own source revenues remain limited. In this context, the urban immovable property tax (UIPT), which at presents yields very little revenue for the province, is seen as a promising source of revenue with huge untapped potential. Besides a revenue source, UIPT is also a very effective policy tool to drive urban policy. SEED recognises scope for improvement on both the policy and administrative side of UIPT, while acknowledging the need to strengthen the social compact by creating a stronger link between service delivery and citizen's willingness to pay such taxes.

SEED has collaborated with the Consortium for Development Policy Research (CDPR) and the International Growth Center (IGC) to produce this policy note on UIPT. This note acts as policy guide not only for SEED but also for the provincial government to carve out a framework for future reform to improve the performance of urban property taxes in KP.

Through this note, and in consultation with the Government of Khyber Pakhtunkhwa, SEED has identified a number of priority areas for reforming property tax in the province including digitisation and integration of property tax data, updating property valuation, and improving tax collection through raising both tax morale and government accountability.

I hope that SEED will be able to help the Government of Khyber Pakhtunkhwa in reforming the UIPT regime, leading to increased public investment and a conducive urban policy, ultimately contributing in achieving the growth and prosperity agenda for the province.

Executive Summary