



PAKISTAN - July 2017

BRINGING ORDER TO PAKISTAN'S PROPERTY TAX CHAOS 1

Bringing Order to Pakistan's Property Tax Chaos

Property tax around the world is the primary source of income for the urban local bodies. It is also primarily the property tax which is used to maintain the urban infrastructure and public facilities from streetlights to sewerage.

The system in Pakistan, however, is disorganized and mismanaged. For one, it is the provinces which have to collect the taxes for local bodies since the latter lack the capacity, then the situation is further exacerbated by the informal state of real estate in Pakistan. There is the issue of undervaluation of property. And finally, the problem of tax compliance.

Formalising the Economy

There is a need for a revision of stamp duties, a revamp of building regulations and modifications in the property tax regime as well changes in the land titling systems to formalise the economy.

On the other hand, a resolution for undervaluation of property is required: where the undervaluation of the property was nowhere near as bad as tax authorities had initially thought. Initially, it was thought that property dealers and investors were undervaluing their property by 50 to 100 times – which was a gross misjudgement.

When the actual work was done to find out the exact numbers, it was found by government-hired valuers that value differences was somewhere around three times to 15 times in general; while a similar research done by real estate representatives showed that the difference between fair market value and the DC rates was between 2 to 5 times.

Weak Tax Compliance

Finally, the problem of tax compliance can be gauged from the fact that while there are more than 875,000 properties in Karachi, the number of property taxpayers barely exceed 100,000. Similar situation exists all over the country. Property Tax collected in Punjab, for example, is slightly above PKR 5 billion but according to a study by International Growth Centre, if the tax regime was reformed, the taxes collected could go up to PKR 25 billion.

Similar research has also come with numbers that range between 4 to 5 times the current tax base.

One of the major problems with taxation is that almost all the taxes and duties which generate revenue for the local bodies—stamp duty, taxes on vehicles, property taxes—have a really slow growth and the problem behind them, as identified by experts, is the inelasticity of the provincial tax regime.

Updating the Valuation Tables

Moreover, since valuation tables for property—on which the property taxes are based—are not updated with time and hence are not really in consonance with the actual market values, they also contribute to the issue of small tax base. Quite like there are supposed to be regular revenue assessments for agricultural property, there should be assessments for urban properties too, and valuation markets should be updated accordingly.

International Property Tax Institute

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Similarly, there is a need to update the property values to a more fair level since DC rates are too low. At the same time, however, government can drastically reduce the taxes—instead of increasing them—since the above measures alone would ensure that government would be able to increase its revenue without actually affecting the general public.

The government would, however, need to negotiate it with real estate’s representatives because any moves taken without consent would actually hurt the market as well as any investment, as it did last year after the sudden taxes and that would serve no one.

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