



## PAKISTAN – February 2020

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**PEOPLE DECRY RECEIVING PROPERTY TAX BILLS WITH 10-YEAR ARREARS..... 1**  
**PUNJAB TAX AUTHORITIES REJECT PROPERTY SURVEY DATA ..... 2**  
**BENEFICIAL PROPERTY TAXATION..... 2**

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### People decry receiving property tax bills with 10-year arrears

In an interesting move, the Rawalpindi Excise, Taxation Department has asked the residential and commercial property owners to clear their property tax arrears for the past 10 years within a month.

The department has issued property tax bills which include outstanding taxes along with a fine for up to past 13 years, including taxes which the department did not collect during the tenure of the previous government. The residents seem troubled after being asked to pay millions of rupees within a month and they have challenged these bills in the Lahore High Court Rawalpindi bench.

Further, the lawmakers too have declared sending these bills a conspiracy against the provincial government and approached the Chief Minister Usman Buzdar in this regard.

Addressing the complaints made by Punjab Parliamentary Secretary Revenue Adnan Chaudhry and MPA Haji Amjad Mehmood, the chief minister has stopped the department from taking action on non-payment of the arrears as well as sought clarification from it. The property owners of 24 village tehsils that have been merged in the urban areas under the new local government system have also received the tax bills.

#### Buildings on highways and motorways to pay property tax

In this regard, Adnan Chaudhry confirmed the issuance of the bills when The Express Tribune contacted him on Saturday. He termed the action as the department’s ‘conspiracy’ against the government. Chaudhry asked: “why the tax was not collected on its due time, and after a decade, a tax bomb was dropped on people suddenly.”

Chaudhry said that the excise officers who did not collect tax at the time of the PML-N regime have reopened the cases now to defame the PTI government. He asserted that the government would identify the responsible officers and take action against them.

Meanwhile, the owners having properties of up to five-marlas have also been instructed to pay off their outstanding arrears whereas as per law, they have been exempted from property tax in the past.

In this regard, the excise department officials were of the view that the five-marla plot owners have been exempted from paying property tax, however, they would have to pay the back tax for the period before the exemption.

### International Property Tax Institute

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## Punjab tax authorities reject property survey data

LAHORE: Punjab's tax authorities are unhappy with the outcome of a property valuation exercise five years in the making, The Express Tribune has learnt.

According to senior Punjab Excise and Taxation officials, the department's field staff carrying out a survey of residential and commercial buildings in the province has been unable to collect adequate information to prepare a valuation table for new property tax rates. Subsequently, a departmental committee overseeing the exercise rejected the sample survey data as insufficient, they said.

The department has been surveying residential and commercial buildings across Punjab to track how rent amounts have changed from five years ago in order to update property tax rates. The exercise, under way since the beginning of January, also seeks to identify which property units should fall under the tax net.

On Thursday, the various focal officials appointed for carrying out the task submitted sample survey results for their respective divisions to a director-level committee constituted by Director General Excise Sohail Shehzad. Upon reviewing the sample data, the committee found it to be 'inadequate and non-standard'.

"The samples presented to us in the meeting were not in line with the criteria prescribed for the survey," said committee head Additional DG Excise Rao Shakeelur Rehman. "According to the sample, rents had risen in some areas and gone down in some – overall, it depicted a between 30% and 35% increase in rent – but no evidence to back up the data was presented with any sample," he said.

After rejecting the samples, the committee members prepared a pro forma to be used by all officers carrying out the survey. Staff tasked with conducting the survey were also directed to collect rent data from at least 10 buildings in each locality area, along with copies of receipts or documents validating the rent amount being charged.

"We set a January 27 deadline for all directors to submit the final data. Once we have that information, recommendations for the valuation table will be proposed to the DG Excise," Rehman said.

There are, at present, more than 50,000 locality areas across Punjab. During the meeting, the committee was told that some locality areas are too small for obtaining 10 samples. An even difficult task, the committee was informed, was obtaining proof of rent as many tenants and landlords do not keep records of rent transactions.

## Beneficial property taxation

The Prime Minister has been saying that the people avoid taxes because they don't see any visible benefits. With the approaching elections in Punjab and K-P, the issues of financing public services will assume centre-stage again.

In most countries, these services are provided locally, as this is the level of government for effective delivery. Property taxation has the key role here. In the first Mahbub ul Haq Dialogue held in Lahore last Friday, Professor Ehtisham Ahmad of the London School of Economics and Zhejiang University in China explored the potential of a "beneficial property tax" as a new reform.

He thinks that property taxes are the most visible of taxes. This is why they generate the most opposition, unless closely linked with benefits. His research on other countries estimates the potential to be at least two per cent of the GDP.

In Pakistan, property taxation is collected by the provinces and the proceeds are transferred to the local level through inefficiently administered transfer mechanisms. In FY19, the yield was a mere Rs7 billion in the total provincial revenues of Rs402 billion.

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Broadly, property taxes are of two types. One is the US model, with clearly recorded ownership titles and timely information on changes in property values. This is hard to implement in countries like Pakistan.

The other is a simpler “beneficial” tax based on occupancy and using rate-setting and simple criteria depending on the size and location linked to the cost of service delivery. It avoids the complexity of full cadastre and abstruse valuation changes by linking registration and occupancy to the cost of service delivery. Countries with complex ownership/leasehold structures are recommended this approach.

In the UK, the approach generates 3.3 per cent of GDP in revenue. Professor Ahmad is working with the Chinese finance ministry to devise a system for them. Along with Lord Stern, he had carried out ushr-related simulations for the 1980s.

Land tax used to generate around 5 per cent of GDP from Moghul days until the Government of India Act, 1935. Political considerations and corrupt patwaris led to the collapse of the tax base. Their simulation of acreage-based land tax linked to a percentage of gross output (7.5%) for insurance purposes above the limit of 12.5 acres was modestly estimated to yield one per cent of the GDP.

This land tax credited towards ushr was linked with local public services: healthcare, basic education and social protection for the locally identified needy. It would have transformed rural local governments towards better accountability and social service delivery. That was then. Now, as he puts it, property tax on beneficial area/locality-based model linked to basic services could generate an additional one per cent of the GDP in Pakistani cities.

The finding is informed by his ongoing research that places the estimate for cities in China and Mexico at 2 and 1.5 per cent of the GDP respectively.

In sum, Professor Ahmad calls for developing a beneficial property tax model for local governance with a local tax system linked to local infrastructure and service delivery, revamping local government for improved accountability, a focus on SDGs and a generalised asset-based tax system linked to social services; besides access to credit for local infrastructure. Interestingly, the beneficial property taxes imply zero net tax — the burden of taxation being compensated by the benefit of expenditures.

As a result, changes in taxes and expenditures do not raise reactions from taxpayers, such as migration, protests and voting out incumbents. Also, there is less resistance and, including, above all, cheating. He believes that his scheme of things is likely to reduce informality as well.

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