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PROPERTY TAXATION: A RADICAL CHANGE IN SINDH

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In the fully charged contest between the pros and antis of the Sindh Local Government (Amendment) Act, 2021, a radical change was scarcely noticed. It related to property taxation. Under the Urban Immovable Property Tax Act, 1958, the original law adopted by the provinces, it lies in the domain of local governments. In the name of poor local capacity, its collection was assumed by the provincial governments. Their own capacity turned out to be even worse. Whatever was collected was never fully transferred to the local governments, whenever they existed. The contested law in Sindh has given the collection back to the local level. Globally, property taxes rank third or fourth in the total revenue collection. Generally, the federal or central governments run on income taxes, the provincial or state governments on consumption taxes and the local governments on property taxes. In Pakistan, the yield from property tax figures nowhere. In FY20, all provincial governments together collected a mere Rs9.7 billion. In Sindh, the collection was just Rs2.4 billion, less than Rs2.6 billion collected five years ago.

The potential yield in Karachi alone is estimated between Rs80-100 billion. This is much more than the possible share in the fairest of the Provincial Finance Commission awards. Why is then the opposition raising the flag of no representation without taxation? Devolved collection creates an opportunity to make property tax what it should be — the largest source of revenue. But it takes some doing. A large number of exemptions will have to go. Assessment of annual rental value would require to reflect the real state of affairs. Concessional taxation of owner occupants opens doors for massive evasion. Commercial properties are routinely declared owner-occupied. Unfortunately, this is not the end of delinquencies. In a city as big as Karachi, less than a million property units form the base. Even its expected doubling, following a survey planned with the World Bank support, will not make much difference due to distorted rates. Mustering the necessary political will to deal with these structural issues is harder than the easy course of demanding a larger share in the provincial divisible pool under PFC. The approach is no different from the Sindh government's standard grumbling about the denial of its rightful share in the federal divisible pool of taxes under NFC.

If effective service delivery for all is the objective of those hoping to win in the forthcoming local elections, they should then move away from stock-in-trade recipes offered by the donors. Ehtisham Ahmad's "beneficial property tax" proposal provides an alternative, as it links benefits with taxation. For the base, he proposes simple indicators like area and location to avoid valuation complexities in situations like Pakistan. Vacant land and owner occupancy are the most important examples. Rates are set on the basis of occupancy, size, location and the cost of service delivery. The proposal addresses the most asked question of why pay taxes. You pay in proportion to what you get in terms of services. Slow progress on SDGs suggests that own-source provision at local level will be the only way to accelerate. This is also important to leverage CPEC connectivity to create greater opportunities. For cities like Karachi, own-source property taxation is a necessary condition for the efficient functioning of the market for municipal bonds. The devolved property tax collection under the new law provides an opportunity to Karachi to link benefits to taxation and demonstrate to the other cities that local problems require local solutions. It will also help change the tax culture.