REPORT ON IMPACT ASSESSMENT OF COVID-19 ON THE REVENUES OF GOVERNMENT OF THE PUNJAB

Finance Department
Government of the Punjab

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List of Abbreviations

BE	Budget Estimate
BOR	Board of Revenue, Punjab
COVID-19	Corona Virus Disease of 2019
ED	Energy Duty
ENTD	Entertainment Duty
ETNCD	Excise, Taxation & Narcotics Control Department, Punjab
FY	Financial Year
FY17	Twelve-month period ending on June 30, 2017
FY18	Twelve-month period ending on June 30, 2018
FY19	Twelve-month period ending on June 30, 2019
FY20	Twelve-month period ending on June 30, 2020
FY21	Twelve-month period ending on June 30, 2021
FY22	Twelve-month period ending on June 30, 2022
GoPb	Government of the Punjab
MVRF	Motor Vehicle Registration Fee
MVT	Motor Vehicle Tax
PIDC	Punjab Infrastructure Development Cess
PSTS	Punjab Sales Tax on Services
PT	Professional Tax
UIPT	Urban Immoveable Property Tax

Acknowledgements

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Executive Summary

1. The coronavirus pandemic had an adverse impact on the economies across the globe resulting in negative repercussions for both customers and businesses. The economies had to deal with business shutdowns, reduced outputs, supply disruptions and massive declines in household incomes owing to job losses, routine layoffs and pay cuts.

2. With the onset of COVID-19 pandemic in Pakistan in March 2020, the federal and provincial governments began implementing containment and mitigation measures such as border closures, social distancing, varying degrees of lockdown, banning of public events and closure of educational institutions. The government introduced relief packages and mitigating measures to serve as a panacea for economy failing to keep up with their economic and fiscal targets for the year. Among the options available to the government to tackle COVID-19 economic impacts, an approach to tax concessions was common across jurisdictions. This approach was thought to be imperative for supporting businesses and individuals in sustaining losses, surviving the pandemic-induced recession, and to support consumption and investments to bolster demand and supply sides. The biggest challenge for the government, however, was to find an optimal balance between providing tax reliefs and maintaining public finances.

3. The Government of Punjab has undertaken this task of assessing impact of COVID-19 on major own-source tax revenues including Stamp Duty, Urban Immovable Property Tax (UIPT), Motor Vehicle Tax (MTV) and Punjab Sales Tax on Services (PSTS) which together accounted for approximately 89% of total own-source tax revenues during both FY18 and FY19. The underlying objective of the assessment is to ascertain the impact of COVID-19 on Punjab's own-source tax revenues which could be due to fiscal relief measures introduced during the pandemic, slowdown in economic activity and administrative challenges in tax collection during the pandemic e.g. lack of automation and facilitation etc.

4. The analysis concludes that the Government lost approximately PKR 103 billion in tax revenues. It further highlights that the overall impact was high in case of Stamp Duty (PKR 59 billion), and PSTS (PKR 38 billion), low in case of UIPT (PKR 5 billion) and minimal in case of MVT (PKR 1 billion). The contribution of both policy measures and economic factors was significant in the case of impact on revenue from Stamp Duty. In case of UIPT, the impact was primarily due to policy measures. In case of MVT and PSTS the impact was primarily due to economic factors.

Introduction

5. The Coronavirus pandemic adversely affected economies across the globe and caused hardships for both consumers and businesses. The lockdowns imposed by various governments to contain spread of the disease brought much of the global economic activity to a halt. Economies witnessed unexpected and severe economic impacts including business shutdowns, reduced outputs and supply disruptions. There was also a sharp decline in household incomes on the back of pay cuts and job losses, with some businesses and consumer segments getting affected disproportionately higher than others.

6. In Pakistan, COVID-19 was reported for the first time on February 26, 2020. Starting on March 23 of 2020, both federal and provincial governments implemented containment and mitigation measures, including selective quarantines, border closures, international and domestic travel restrictions, closure of educational institutions, banning of public events, social distancing, and varying levels of lockdown.

7. Governments, across the globe, provided various short-to-medium term relief packages for mitigating these devastating economic impacts in the form of both fiscal and monetary measures. A combination of tax concessions appeared among common policy measures adopted across jurisdictions as these were thought to be imperative for supporting businesses and individuals in sustaining losses, surviving the pandemic-induced recession, and to support consumption and investments to bolster demand and supply sides. However, the biggest challenges for governments in this regard, particularly in low and middle-income countries, were:

    i. Finding the optimal balance between providing tax relief and maintaining public finances; and

    ii. Ensuring that such relief and support is timely and targeted towards the most vulnerable business and household segments, to help ensure continuity of production and consumption spending.

Objectives and Scope

8. The objective of this assessment is to ascertain impact of COVID-19 on Punjab's own-source tax revenues which could be due to fiscal relief measures introduced during the pandemic, slowdown in economic activity and/or administration challenges e.g. lack of automation and facilitation. This analysis assesses the impact of COVID-19 on the major sources of provincial tax revenues, which together accounted for approximately 89% of the provincial tax revenues during FY18 as well as FY19, and include the following:

Sr.	Revenue Source	Administered by
i	Stamp Duty	Board of Revenue (BOR)
ii	Urban Immoveable Property Tax	Excise, Taxation & Narcotics Control Department (ETNCD)
iii	Motor Vehicle Tax	
iv	Punjab Sales Tax on Services	Punjab Revenue Authority

9. This report examines, in hindsight, the effectiveness and suitability of various tax relief measures introduced by the GoPb, the sensitivity between the levels of economic activity vis à vis direct and indirect taxes along with the risks associated with such tax interventions. The assessment can help the government in quantifying the fiscal risks to revenues posed by natural calamities/shocks. It will further assist in strengthening the Fiscal Risk Management strategy and Disaster Risk Reduction strategy of the province. These strategies are being formulated and designed with the support of the World Bank under Punjab Resource Improvement and Digital Effectiveness (PRIDE) program. COVID impact assessment on own-source tax revenues is also expected to inform the revenue potential and the provincial Revenue Mobilization Strategy in the short to medium term due to the following reasons:

    i. adverse impact of COVID-19 on the actual revenues of FY21 which constitute the baseline for setting future revenue targets

    ii. adverse impact of COVID-19 has not fully subsided due to risk of new variants of the disease, slower rate of vaccination, long-term shifts in social behavior (social distancing etc.), and imposition of restrictions by the government to contain positivity rates of infection

10. The review further intends to assist the policymakers in making informed decisions to phase out tax relief measures introduced to counter the impact of natural disasters like COVID-19. As a general principle, tax relief measures can be withdrawn when there is reason to believe that the economic costs of the tax reliefs have outweighed the costs imposed by the downturn in economic activity and/or there is evidence suggesting that economic activity has largely revived, and the tax relief measures are no longer required.

Assessment Methodology

11. The assessment methodology is based on quantitative data analysis and focus group discussions. Formal and informal interviews were also held with relevant revenue departments. Analysis is focused on the following key elements:

    i. Impact of tax relief measures implemented in the wake of COVID-19 to provide relief to the taxpayers

    ii. Impact of decline in economic activity in the wake of COVID-19 on tax revenues by analyzing the tax collection in the pre- and post-COVID-19 periods

12. Provincial taxes have been divided into two broad types:

    i. Taxes that are fixed in nature and are not linked directly with the level of economic activity – at least in the short-term, including Urban Immoveable Property Tax and Motor Vehicle Tax. The revenue potential of these taxes primarily depends upon government policy.

    ii. Taxes that are variable in nature and are linked directly with the level of economic activity in the short term, including Stamp Duty and Sales Tax on Services. The revenue potential of these taxes depends on government policy as well as economic activity.

13. In order to assess the impact of COVID-19 on taxes mentioned at para 12(i), the amount of reliefs, waivers, or any other concessions provided by the government through changes in tax policy during the fifteen-month period under consideration, have been calculated in the relevant sections of this report.

14. In order to assess the impact of COVID-19 on taxes mentioned at para 12(ii) above, revenue projections in a No-COVID scenario have been made for FY20 and FY21 and compared with the actual figures of revenue collection during the same period. In case of these taxes, the impact of tax policy changes is difficult to isolate because the policy changes (reduced rates etc.) had two opposing effects on revenues. For instance, in the case of Stamp Duty, lower tax rates resulted in lower revenue on one hand but higher transaction volumes – and hence higher taxes – on the other hand. The additional revenue collected due to higher volume of transactions partially offset the lower revenue collection due to lower rates. In addition, certain other factors, such as the introduction of tax amnesty scheme for real estate sector, announced by the Federal Government, also led to higher transaction volumes and further offset the impact of lower rates.

15. In order to make short-term (two-year) projections of tax revenues i.e. for FY20 and FY21, the average growth rate for two previous years i.e. FY18 and FY19 has been used to form a

baseline growth estimate. The rationale for using the average growth rate for the two most recent years instead of a longer period is as follows:

i. recent growth trend (momentum) is more representative and relevant in making short-term projections; and

ii. longer time series take into account the full economic cycle and are more useful for making longer term projections.

16. The baseline estimate has been further modified on the basis of professional judgement based on the consideration that outliers, such as a very high or very low growth rate, in any one or two years tend to be unsustainable and growth in tax revenue tends to revert to the nominal GDP growth rate over time.

17. The objective is not to make a precise estimate of the tax revenue lost as a result of the pandemic but to arrive at a reasonable estimate by developing an analytical framework which is theoretically sound, intuitively appealing, practically useful, and avoids undue complexity.

18. The research has arrived at the impact of COVID-19 on tax revenues by comparing the revenue collections projected in the 'No COVID' scenario with the actual collections.

19. Subsequent sections contain a discussion of the impact of COVID-19 on the major sources of taxes both on account of relief measures and slowdown in economic activity.

Relief Measures

20. In response to the pandemic, the Federal Government came up with incentives for revival of the construction industry by amending certain tax laws through the promulgation of Tax Laws (Amendment) Ordinance 2020 on April 17, 2020, which granted the status of 'industry' to the construction sector and offered several time-bound tax reliefs to builders and developers.

21. The Amendment Ordinance also granted immunity from probe regarding source of investment, subject to fulfillment of certain conditions. Provincial governments followed suit by implementing supportive fiscal measures. GoPb, in particular, implemented the following tax concessions/reliefs:

Tax	Relief Measures	Legal Instrument
Stamp Duty	Reduction in Stamp Duty Rate from 5% to 1% of DC Rate for Urban Areas	The Stamp (Amendment) Ordinance, 2020, for the period April 1, 2020 to June 30, 2020, and later through the Finance Act, 2020 for the period June 30, 2020 onwards
UIPT	Wavier of UIPT dues outstanding as of March 31, 2020, for all classes of persons, in respect of any category of property, for FY20	Notification issued by the ETNCD on April 02, 2020
	Discount equal to 5% of UIPT amount payable; allowed for FY 2020-21 on payment of tax through e-payment system	Finance Act, 2020
	Exemption from payment of surcharge on late payment of UIPT	Finance Act, 2020
	Rebate equal to 10% of the annual UIPT amount payable as of June 30, 2020; on lump sum payment of the same on or before the 30th day of September 2020	Finance Act, 2020
MVT	Discount equal to 5% of MVT amount payable; allowed for FY21 on payment of tax through e-payment system	Finance Act, 2020
	Rebate equal to 20% of the annual MVT amount payable as of June 30, 2020; on lump sum payment of the same on or before the 30th day of September 2020	Finance Act, 2020
	Exemption from payment of penalty attributable to late payment of MVT, in case the same is paid during FY21	Finance Act, 2020
PSTS	Reduction in rates of PSTS to zero percent on various services for the period April 02, 2020 to June 30, 2020 and revision/restoration of rates thereafter **(Annex-I)**	Notification issued by the PRA on April 02, 2020 and Finance Act, 2020
PIDC	Exemption from payment of whole amount of Cess on Import of all goods for the last quarter of FY20	Notification issued by the PRA on April 02, 2020
PT	Waiver of Professional Tax dues outstanding as of March 31, 2020, for all classes of persons, for FY20	Notification issued by the ETNCD on April 02, 2020
ED	Exemption from levy and collection of Electricity Duty for the last quarter of FY20	Notification issued by the Energy Department, GoPb, on April 03, 2020
ENTD	Reduction in the rate of Entertainment Duty from 20% per cent to 5%	Finance Act, 2020

Impact Assessment

22. Data obtained from BOR, ETNCD and PRA pertaining to relief measures implemented regarding major sources of Punjab's own tax revenues i.e. Stamp Duty, UIPT, MVT and PSTS has been examined. These taxes taken together constituted 89% of the total own-source tax revenue of Punjab during FY18 and FY19.

23. Key observations and findings are discussed in detail below:

A. Board of Revenue

24. The legal framework that determines the administration of Stamp Duty in Punjab is governed by the Stamp Duty Act, 1899 and the Punjab Board of Revenue Act, 1957.

25. As per the above framework, BOR is the controlling authority in all matters connected with the administration of land, collection of land revenue including stamp duty, and all related matters.

Stamp Duty – Immoveable Properties (Urban):

26. The rate of Stamp Duty for Urban Immoveable properties was reduced to 1% of the DC value from earlier 5% w.e.f. April 01, 2020. Analysis of the data obtained from BOR is given below:

Immoveable Properties (Urban)	Unit	ACTUAL DATA				
		FY17	FY18	FY19	FY20	FY21
Rate of Stamp Duty	% of DC Rate	5.0%	5.0%	5.0%	4%*	1%
No. of transactions		605,756	833,343	964,834	913,335	1,651,941
YoY Change			*38%*	*16%*	*-5%*	*81%*
Amount collected as Stamp Duty	PKR billion	22.1	33. 0	37.9	**32.4**	**22.4**
YoY Change			*49%*	*15%*	*-14%*	*-31%*
Total DC value of properties transacted	PKR billion	441.6	660.1	757.9	810.3	2,239.6
YoY Change			*49%*	*15%*	*7%*	*176%*
Average DC value per transaction	PKR	729,072	792,087	785,503	887,133	1,355,738
YoY Change			*9%*	*-1%*	*13%*	*53%*
Average Stamp Duty per transaction	PKR	36,454	39,604	39,275	35,485	13,557
YoY Change			*9%*	*-1%*	*-10%*	*-62%*

Source: BOR

**The average rate of stamp duty for FY20 has been computed by taking the time-weighted average of rates prevailing during the period i.e. 5% for 9M period from Jul-Mar and 1% for 3M period from Apr-Jun [(5% x 9/12) + (1% x 3/12) = 4%]*

27. It can be observed from the above table that:

    i. After YoY increases of 38% and 16% during FY18 and FY19 respectively, the number of transactions declined by 5% in FY20 and then increased sharply by 81% during FY21.
    ii. After YoY increases of 49% and 15% during FY18 and FY19 respectively, collection from Stamp Duty declined by 14% in FY20 and further declined by 31% in FY21 despite a huge increase in transaction volume.

28. To estimate the COVID-19 Impact, a hypothetical 'No COVID' scenario has been created with the following assumptions:

    i. Stamp Duty rate unchanged at 5% of DC Value for FY20 and FY21.
    ii. Annual increase in transaction volume of 16% to continue in FY20 and FY21. This assumption of 16% growth in transaction volume is a conservative and more reasonable estimate as it is closer to the Nominal GDP growth rate and the average growth rate of last two years i.e. FY18 and FY19 is skewed due to the abnormally high growth witnessed in FY18 which is clearly an outlier.
    iii. Average DC Value per transaction maintained at FY19 level i.e. PKR 785,503.

29. Results of the hypothetical scenario projections are presented below:

Immoveable Properties – Urban	**Unit**	**ACTUAL DATA**			**NO COVID**	
		FY17	**FY18**	**FY19**	**FY20P**	**FY21P**
Rate of Stamp Duty	% of DC Rate	5.0%	5.0%	5.0%	**5%**	**5%**
Number of transactions		605,756	833,343	964,834	1,119,207	1,298,281
YoY Change			*38%*	*16%*	***16%***	***16%***
Amount collected as Stamp Duty	PKR billion	22.1	33.0	37.9	**44.0**	**51.0**
YoY Change			*49%*	*15%*	*16%*	*16%*
Total DC value of properties transacted	PKR billion	441.6	660.1	757.9	879.1	1,019.8
YoY Change			*49%*	*15%*	*16%*	*16%*
Average DC value per transaction	PKR	729,072	792,087	785,503	***785,503***	***785,503***
YoY Change			*9%*	*-1%*	*0%*	*0%*
Average Stamp Duty per transaction	PKR	36,454	39,604	39,275	39,275	39,275
YoY Change			*9%*	*-1%*	*0%*	*0%*

Source: BOR

30. **Total Projected Stamp Duty** collection in the 'No COVID' scenario comes to **PKR 95 billion** during the two-year period consisting of FY20 and FY21 whereas the actual stamp duty collection during these two financial years comes to **PKR 55 billion.** Thus, COVID-19 resulted in an overall reduction of around **PKR 40 billion** in revenue from Stamp Duty from urban areas during the fifteen-month period under consideration.

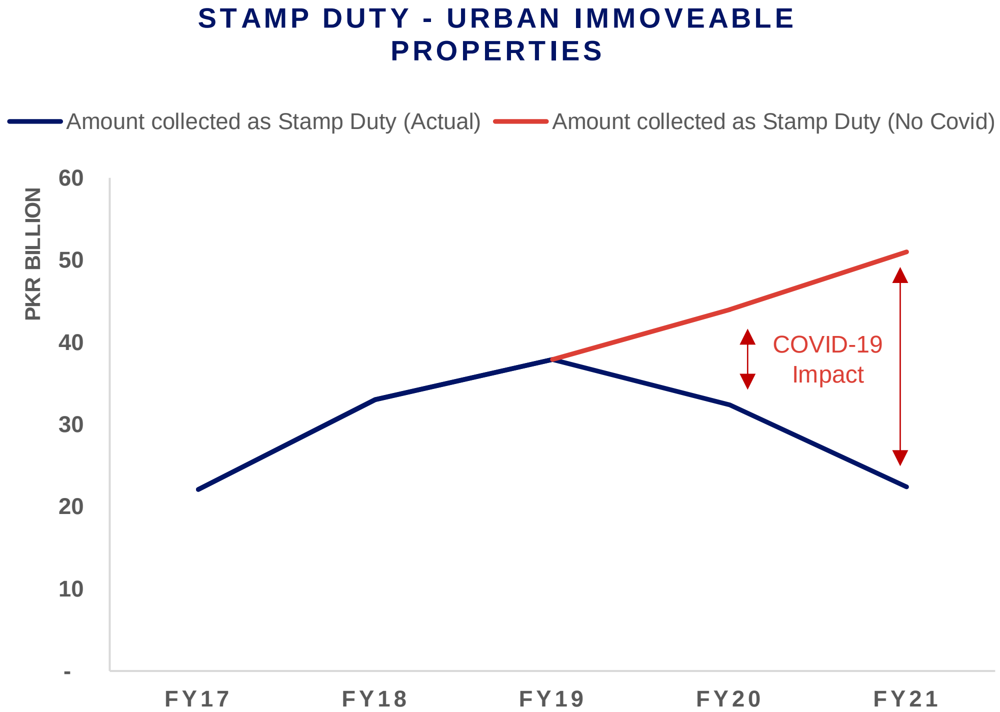
31. A YoY increase of 53% can be observed in the average DC value per transaction in FY21. It is pertinent to mention that an unprecedent increase of 81% in volume of transactions was also recorded in FY21 while DC rates were not increased during this period. These statistics confirm that, on average, properties with significantly higher values were traded in FY21 and that too in much greater volume. It can be inferred from the above analysis that the Punjab Government's policy decision to drastically reduce the rate of Stamp Duty in urban areas, along with an income tax amnesty announced by the Federal Government on real-estate investments, worked mainly to the benefit of wealthier taxpayers who ended up paying much lower Stamp Duties despite purchasing more valuable properties in larger numbers. Thus, the impact of this policy measure was largely regressive in nature as the wealthier taxpayers paid a disproportionately lower amount in tax relative to their wealth.

32. The data suggests that a significant reduction in the Stamp Duty rate from 5% to 1% was not warranted. As the federal government's tax relief measures were already focused on stimulating economic activity in the real estate sector, the relief provided by the GoPb could be more measured. The optimal rate of stamp duty could be in the range of 3%.

33. A sharp increase in the number of transactions in FY21 suggests that the negative economic impact of COVID-19 subsided rather quickly, at least to the extent of real estate sector. However, GoPb has not yet reversed the reduction in the Stamp Duty rate.

34. The anomaly between Stamp Duty rates in Rural areas and the Stamp Duty rate in urban areas still persists, however, its direction is reversed. Before COVID-19, the rate of Stamp Duty in rural areas was 3% which was lower than the rate of 5% in urban areas. Post-Covid-19, the rate of Stamp Duty in rural areas is still 3% but 1% in urban areas.

35. It is recommended that the government may reconsider the Stamp Duty rates and decide a rate structure for rural and urban areas that is based on sound economic reasoning.



Stamp Duty – Immoveable Properties (Rural):

36. No fiscal incentive was announced by GoPb in the Stamp Duty rate for rural properties:

Immoveable Properties (Rural)	Unit	ACTUAL DATA				
		FY17	FY18	FY19	FY20	FY21
Rate of Stamp Duty	% of DC Rate	3%	3%	3%	3%	3%
No. of transactions		376,645	626,926	822,835	595,694	574,855
YoY Change			*66%*	*31%*	*-28%*	*-3%*
Amount collected as Stamp Duty	PKR billions	8.5	13.2	15.6	11.6	10.7
YoY Change			*55%*	*18%*	*-26%*	*-8%*
Total DC value of properties transacted	PKR billions	283.3	438.3	519.0	385.6	356.0
YoY Change			*55%*	*18%*	*-26%*	*-8%*
Average DC value per transaction	PKR	752,079	699,179	630,706	647,312	619,229
YoY Change			*-7%*	*-10%*	*3%*	*-4%*
Average Stamp Duty per transaction	PKR	22,562	20,975	18,921	19,419	18,577
YoY Change			*-7%*	*-10%*	*3%*	*-4%*

Source: BOR

37. It can be observed from the above table that:

i. After YoY increases of 66% and 31% during FY18 and FY19, the volume of transactions declined by 28% in FY20 and further declined by 3% in FY21.

ii. After YoY increases of 55% and 18% during FY18 and FY19, collection from Stamp Duty declined by 26% in FY20 and further declined by 8% in FY21.

38. To estimate the COVID-19 Impact, a hypothetical 'No COVID' scenario has been created with the following assumptions:

i. Annual increase in transaction volume of 20% in FY20 and FY21.

Note: The YoY growth in number of transactions in FY18 and FY19 was abnormally high (outliers) and therefore the projected growth rate was normalized to keep it relatively closer to Nominal GDP, however, it was still kept well above the Nominal GDP growth rate to account for the higher historical growth rate.

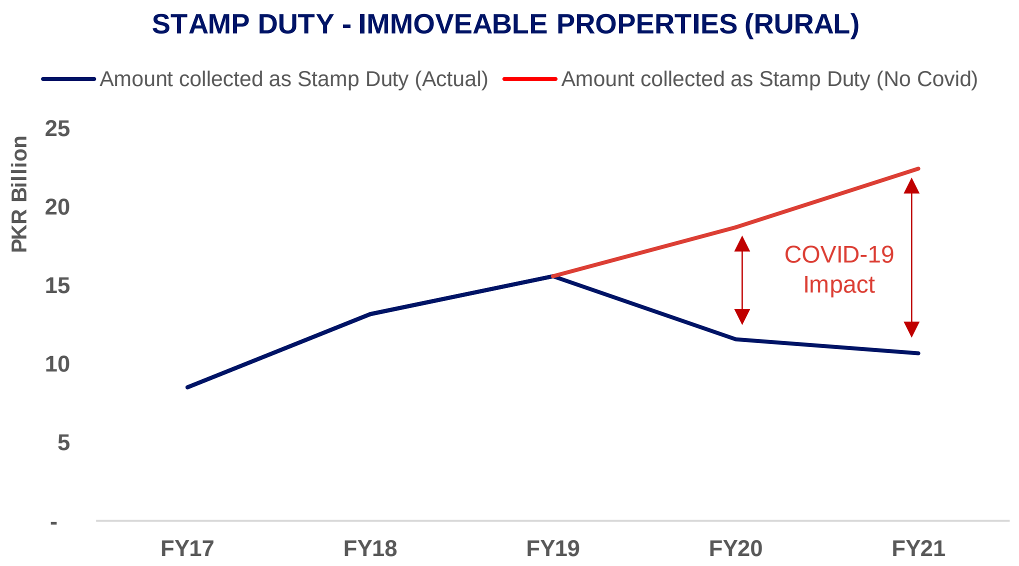
ii. Average DC Value per transaction maintained at FY19 level i.e. PKR 630,706.

39. Results of the hypothetical scenario projections are presented below:

Immoveable Properties – Rural	Unit	ACTUAL DATA			NO COVID	
		FY17	FY18	FY19	FY20P	FY21P
Rate of Stamp Duty	% of DC Rate	3%	3%	3%	3%	3%
Number of transactions		376,645	626,926	822,835	987,402	1,184,882
YoY Change			*66%*	*31%*	***20%***	***20%***
Amount collected as Stamp Duty	PKR billions	8.5	13.2	15.6	**18.7**	**22.4**
YoY Change			*55%*	*18%*	***20%***	***20%***
Total DC value of properties transacted	PKR billions	283.3	438.3	519	622.8	747.3
YoY Change			*55%*	*18%*	*20%*	*20%*
Average DC value per transaction	PKR	752,079	699,179	630,706	***630,706***	***630,706***
YoY Change			*-7%*	*-10%*	*0%*	*0%*
Average Stamp Duty per transaction	PKR	22,562	20,975	18,921	18,921	18,921
YoY Change			*-7%*	*-10%*	*0%*	*0%*

Source: BOR

40. **Total Projected Stamp Duty** collection in the 'No COVID' scenario comes to **PKR 41 billion** during the two-year period consisting of FY20 and FY21 whereas the actual stamp duty collection during these two financial years comes to **PKR 22 billion.** Thus, COVID-19 resulted in an overall reduction of around **PKR 19 billion** in revenue from Stamp Duty from rural areas during the fifteen-month period under consideration. Considering that there was no policy change introduced in rural areas, all of this impact is attributable to the economic impact of COVID.



B. Excise, Taxation & Narcotics Control Department

41. Administration of UIPT and MVT is governed by the Punjab Urban Immovable Property Tax Act 1958 and the Punjab Motor Vehicles Ordinance 1965, respectively.

42. ETNCD is the controlling authority in all matters connected with the administration of UIPT and MVT.

Urban Immoveable Property Tax

43. Property tax revenue is not dependent on the level of economic activity. It is like a fixed annual tax on property and therefore can be precisely projected based on data of taxable properties and the tax rates. Any shortfall in collection of this tax can only be on account of two reasons:

   i. policy-based concession/waiver in tax liability; or

   ii. delay in payment by taxpayers.

44. ETNCD, vide its Notification dated April 02, 2020, waived UIPT dues outstanding as of March 31, 2020, for all classes of persons, in respect of any category of property, for FY20. Resultingly, outstanding dues of 723,769 taxpayers were waived, which had an impact of **PKR 4.65 billion.**

45. The above impact is attributable entirely to the tax waiver announced by the government. The waiver was announced during the year and was applicable only to the taxpayers whose dues were still outstanding at that time.

46. In addition, the Finance Act, 2020, provided the following additional relief measures:

   i. Rebate of 10% (instead of normal rebate of 5%) of the annual UIPT amount payable on lump sum payment of the same on or before the 30th day of September 2020.
   ii. Discount equal to 5% of UIPT amount payable; allowed for the financial year 2020-21 on payment of tax through e-payment system.
   iii. Exemption from payment of surcharge on late payment of UIPT *(negligible impact)*.

47. The impact of the above relief measures is as follows:

Amount in PKR billion

10% rebate on UIPT (FY21)	0.78
Less: Normal Rebate @ 5%	(0.39)
Impact of additional 5% Rebate for UIPT (FY21)	0.39
Add: Impact of additional 5% E-Pay Rebate for UIPT (FY21)	0.16
Total Impact of relief measures provided for in Finance Act, 2020	**0.55**

Source: ETNCD

48. The total impact of the aforementioned waiver and relief measures introduced through the Finance Act comes to **PKR 5 billion** approximately.
49. The relief provided in respect of property taxes warrants a discussion. It is a direct tax levied on the property value. There is a general consensus amongst analysts that property valuations and property tax collections are already low and have room for substantial upward revisions.
50. In FY21, new valuation tables were to be introduced for property valuations as per the property tax law. The Government, however, decided not to introduce these tables as a relief measure for COVID-19.
51. The Government also decided to continue the remissions in property tax liabilities which were available until FY20 in FY21 also.
52. A substantial amount of property tax reliefs was thus provided in FY21 by not revising the property valuations upwards and continuing the remissions in tax liabilities.
53. The case for providing relief in property taxes is weak, at best, considering the following:
    i. property valuations and property tax liabilities prevailing in Punjab are already low
    ii. property taxes are not transaction-based taxes and, therefore, are unlikely to have a strong impact on the revival of economic activity
    iii. property taxes are payable by wealthier taxpayers whereas tax reliefs in times of natural calamities may be better targeted towards the most vulnerable and less wealthy segments of the society
54. The policy decision to waive the tax liability of only those taxpayers who had not paid their dues until 31st March 2020 does not seem to be in line with the principle of horizontal equity which states that all taxpayers in a similar situation should be subjected to similar tax liabilities.
55. It may be argued that government's objectives would be better served if greater tax relief is provided, at best, to the less wealthy taxpayers whose property values were below a certain threshold, or, at the minimum, to all taxpayers on a proportionate basis.
56. In short, from a policy perspective, the government is better advised to follow the below-mentioned order of priority in future:
    i. No relief in property taxes may be allowed, particularly if property valuations and property tax liabilities are already low based on the relevant benchmarks.
    ii. Greater tax relief, if at all, may be provided to the less wealthy taxpayers whose property values are below a certain threshold.
    iii. In case it is decided to benefit all taxpayers, the principle of horizontal equity may be followed so that all taxpayers benefit on a proportionate basis.

57. Finally, it must be appreciated that the government designed the property tax relief largely as a one-off concession and the waiver of tax liability was allowed only for FY20.

Motor Vehicle Tax

58. The Finance Act, 2020 provided for the following relief measures with regard to MVT:

i. One-time rebate of 20% (instead of the normal rebate of 10%) of the annual MVT amount payable on lump sum payment of the same on or before the 30th day of September 2020.
ii. Discount equal to 5% of MVT amount payable; allowed for the FY21 on payment of tax through e-payment system.
iii. Exemption from payment of surcharge on late payment of MVT, in case the same is paid during FY21 *(negligible impact)*.

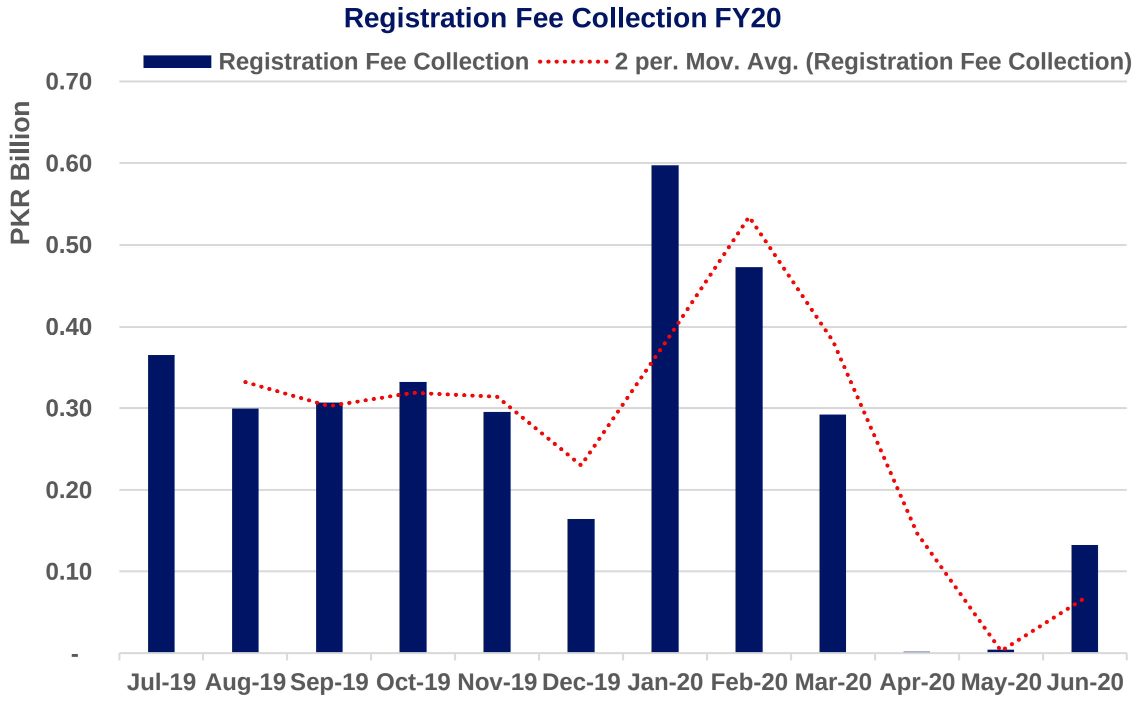
59. The impact of the above relief measures is as follows:

Amount in PKR billion

20% rebate on MVT (FY21)	0.34
Less: Normal Rebate @ 10%	(0.15)
Impact of additional 10% Rebate for MVT (FY21)	0.19
Add: Impact of additional 5% E-Pay Rebate for MVT (FY21)	0.14
Total Impact of relief measures provided for in Finance Act, 2020	0.33

Source: ETNCD

Registration Fee



Source: ETNCD

60. As per the data obtained from ETNCD, MVRF collections for FY20 amounted to PKR 3.2 billion, down 44% YoY on the back of 46% YoY decrease in number of Motor Vehicles registered during the same period. However, as per monthly Civil Accounts data (Finance Department), collections during the period Jul-19 to Feb-20 (pre-COVID) declined by 27% over the same period last year, which points towards a sharp decline in motor vehicle registrations during the period Mar-Jun 2020, as presented in the chart above.

61. To estimate the COVID-19 Impact, the calculations have maintained the pre-COVID decline of 27% YoY in collections for the whole year i.e. FY20. The resulting annual collection on account of MVRF comes to PKR 4.1 billion. The resulting **COVID-19 impact**, therefore, comes to **PKR 0.9 billion** when compared with MVRF collections for FY20 which amounted to PKR 3.2 billion.

Token Tax

62. Data relevant to token tax collections is summarized below:

PKR in billion

	FY17	FY18	FY19	FY20	FY21
PKR Billion	5.4	6.2	6.9	5.3	6.2
YoY Change		*14%*	*11%*	*-24%*	*18%*

63. After YoY increases of 14% and 11% during FY18 and FY19, the collection of token tax declined by 24% in FY20 but increased by 18% in FY21.

64. Token tax payable in respect of already registered vehicles is not affected by the level of economic activity. However, the potential token tax payable on newly registered vehicles is a function of economic activity.

65. The decline in token tax collections during FY20 is attributable mainly to late payment of dues. It can be inferred that the arears pertaining to FY20 were largely recovered in FY21. This also explains the relatively higher growth rate in collection of this tax during FY21.

66. The decline in token tax collections during FY20 was also offset by higher collection due to sharp increase in registrations of new vehicles in the subsequent year, i.e. FY21.

67. It is reasonable to conclude that impact of COVID-19 on revenue from token taxes consisted of two components:

    i. delays in payment of the tax on already registered vehicles; and
    ii. delay in payment of tax due to a temporary decline in new registrations.

    For the above reasons, the impact of COVID-19 on Token Tax is temporary and maybe ignored.

C. Punjab Revenue Authority

68. Administration of PSTS is governed by the Punjab Sales Tax on Services Act, 2012 and the Punjab Revenue Authority Act, 2012.

69. As per above legal framework, PRA is the controlling authority in all matters connected with the administration of PSTS.

Sales Tax on Services

70. The PSTS data obtained from PRA is summarized below:

PKR in billion

PSTS (ACTUAL)	FY17	FY18	FY19	FY20	FY21
Value of Taxable Services	593.4	710.8	783.6	811.5	898.7
YoY Change		*20%*	*10%*	*4%*	*11%*
Services Tax Payable	92.9	112.4	129,1	**134.8**	**146.6**
YoY Change		*21%*	*15%*	*4%*	*9%*

Source: PRA

71. It is pertinent to explain two important aspects of this analysis:

i. The analysis has been carried out on the basis of total sales tax payable by the taxpayers registered with PRA instead of the total sales tax actually collected by PRA. This is important because the sales tax collected in a particular period can vary from the tax payable due to different reasons including payment of input taxes belonging to PRA in some other jurisdiction, and vice versa. The analysis assumes that PRA's collection will eventually match the sales tax payable by the relevant taxpayers once the adjustments with other tax jurisdictions have been carried out.

ii. Data for FY19 has been adjusted for sales value and sales tax payable by cellular telecom services. In FY19 the sales tax payable by the cellular telecom services was drastically reduced due a Court order which was later reversed by the Supreme Court. The decline in tax payable by cellular telecom services in FY19 was thus non-recurring in nature and its effect on the data needed to be removed for comparability and proper analysis. Actual services value was PKR 54 bn and tax payable amount was PKR 10 bn which was adjusted through interpolation to PKR 185 bn and PKR 35 bn, respectively, as shown below:

PKR in billion

CELLULAR TELECOM	FY17	FY18	FY19	FY20	FY21
Value of Taxable Services (Actual)	160	167	54	203	220
Value of Taxable Services (Adjusted)	160	167	185	203	220
Sales Tax Payable (Actual)	26	32	10	40	43
Sales Tax Payable (Adjusted)	26	32	35	40	43

72. After YoY increases of 20% and 10% during FY18 and FY19, the Value of Taxable Services grew by 4% in FY20 and 11% in FY21.

73. After YoY increases of 21% and 15% during FY18 and FY19, the amount of Services Tax payable grew by 4% in FY20 and 9% in FY21.

74. The overall positive growth in Service Tax revenue is primarily attributable to growth in taxes related to cellular telecom, Banking/NBFI, construction, telephone, and Inter-city carriage services, which together contribute, on average, over 46% of the total PSTS revenues of Punjab, and offset the decline in tax revenue pertaining to other sectors, as explained below:

   i. PSTS on Cellular Telecom services, which, on average, accounts for almost 28% of total Services Tax revenue of Punjab, showed YoY increase of 13% and 8% over the years FY20 and FY21, primarily due to higher-than-normal usage of cellphones during work-from-home arrangements.

   ii. Similarly, PSTS on Banking/NBFI services, Construction Services, Telephone Services, and Inter-city carriage sectors, which together contribute on average 18% of the total tax revenue, also posted ~4% YoY increase in FY20.

75. To estimate the COVID-19 Impact, a hypothetical 'No COVID' scenario has been created with the following assumptions:

   i. YoY increase of 15% in value of taxable services in both FY20 and FY21
   ii. YoY increase of 15% in amount of tax revenue in both FY20 and FY21

76. The growth rate of 15% in sales tax revenue is approximately equal to the expected growth rate of nominal GDP. It is also equal to the growth rate of sales tax revenue in the previous financial year i.e. FY19.

77. The projected PSTS revenue in the 'No COVID' scenario is presented below:

PKR in billion

PSTS (NO COVID SCENARIO)	FY17	FY18	FY19	FY20	FY21
Value of Taxable Services	593.4	710.8	783.6	901.1	1,036.3
YoY Change		*20%*	*10%*	***15%***	***15%***
Services Tax Payable	92.9	112.4	129.1	**148.5**	**170.8**
YoY Change		*21%*	*15%*	***15%***	***15%***

78. The resulting total tax revenue in FY20 and FY21 comes to **PKR 319 billion** whereas the actual tax revenue in these two financial years was **PKR 281 billion**. Thus, the COVID-19 resulted in an overall reduction of **PKR 38 billion** approximately over the fifteen-month period under consideration.

79. It can be inferred that the reduction in revenue estimated above consists mainly of the economic impact of COVID-19 along with significant concessions in tax rates across a number of service sectors.

Summary of Total Covid-19 Impact

80. As per the analysis, COVID-19 resulted in an overall reduction of approximately **PKR 103 billion** in the revenues of Government of the Punjab during the fifteen-month period under consideration.

COVID IMPACT	PKR billion
Stamp Duty	59
PSTS	38
UIPT	5
MVT	1
Total	**103**

81. The actual revenue collection during the fifteen-month period under consideration was **PKR 273 billion**. Assuming all else as constant, this implies that the collection in the 'No COVID' scenario would be **PKR 376 billion** during the same period. Thus, the actual collection was 27% lower than the 'No COVID' scenario.

82. A comparison of the budget estimates, actual revenue collections, and projections in the 'No Covid' scenario is given below:

COVID IMPACT	FY20			FY21		
	BE	Actual	NO COVID	BE	Actual	NO COVID
PSTS	162	106	149	121	138	171
Stamp Duty	61	48	63	33	38	73
MVT	17	9	10	14	14	14
UIPT	15	10	15	15	14	14
Total	**255**	**173**	**236**	**183**	**204**	**272**

83. It can be summarized from the above that:

i. Tax revenue projected for FY20 in the 'No COVID' scenario is somewhat lower than the budget estimate for that year which seems over-optimistic in case of PSTS and MVT.

ii. Tax revenue projected for FY21 in the 'No COVID' scenario is reasonable (15% higher than the 'No COVID' estimate for FY20). The budget estimate for FY21 has been ignored in the analysis as it was made after the onset of COVID-19 and thus not representative of normal conditions.

Conclusion

84. The unprecedented advent of COVID-19 took the world by surprise. After an initial period of shock, most governments decided to adopt a cautious approach and enforced strict restrictions on economic activity. Many governments also introduced substantial fiscal stimuli to mitigate the impact of unemployment and to encourage continued consumer spending to support the GDP.

85. Government of Punjab, in coordination with the Federal Government, opted for limited or smart lockdowns considering the economy was already suffering from slowdown, high unemployment. In this context, extensive lockdowns were likely to create further economic damage in addition to the damage caused by COVID. Despite the limited fiscal space available with the Government of Punjab, it decided to support the economy through a combination of tax reliefs and additional expenditures on social protection. The government reduced or waived a number of taxes with the expectation that disposable incomes of citizens would increase as a result and consequently support the economy through additional consumer spending.

86. This report attempts to analyze the impact of COVID on major own-source tax revenues of the Government which include Stamp Duty, PSTS, MVT and UIPT. The analysis suggests that the Government lost approximately PKR 103 billion in tax revenues. It further highlights that the overall impact was high in case of Stamp Duty, low in case of UIPT, minimal in case of MVT and high in case of PSTS.

87. The contribution of both policy measures and economic factors was significant in the case of impact on revenue from Stamp Duty. In case of UIPT, the impact was primarily due to policy measures. In case of MVT and PSTS the impact was primarily due to economic factors.

Tax	Magnitude of Impact	Nature of Impact
Stamp Duty	High	Policy + Economic
UIPT	Low	Policy
MVT	Minimal	Economic
PSTS	High	Economic

Lessons Learnt

88. The foregoing analysis reflects a few important lessons that can be learnt from Punjab's experience with Covid-19:

    i. In times of natural calamities, attempts to revive economic activity through temporary tax reliefs may be less effective compared with achieving the same objective through temporary increases in government spending as the latter can be better targeted to the affected groups.

ii. Relief measures, whether in the form of tax reliefs or additional expenditure, should, to the extent possible, be targeted towards the most vulnerable segments of the society. At a minimum, tax relief measures ought to follow the principle of horizontal equity i.e. the taxpayers who are in a similar situation should get a similar relief.
iii. While designing a tax relief package in response to a natural calamity such as a pandemic, it is important to differentiate between taxes that are directly linked with the economic activity and those that are not. For instance, the rates of indirect taxes like Stamp Duty and Sales Tax directly affect transaction costs for the taxpayers. In a period of severe economic slowdown, it is reasonable to expect that lowering of these rates would stimulate demand for relevant activities or transactions by lowering the taxpayers' costs.
iv. Direct taxes payable as a percentage of income or wealth are automatically reduced in an economic downturn as the growth in incomes or wealth reduces or declines. Thus, it may not be necessary to lower the tax rates or liabilities through additional policy measures.
v. The underlying principle, while deciding the magnitude of reduction in tax rates, should be that the economic costs of tax reliefs do not outweigh the costs imposed by the downturn in economic activity.
vi. Tax reliefs ought to be time-bound and reviewed on a regular basis to decide upon the timing and extent of the reversal of such policy measures.

89. The biggest lesson, however, is that Governments need to be prepared to deal with events such as natural calamities which have a low probability but high impact. This requires various policies, strategies, and mechanisms to be in place including the following:

i. disaster management policies and strategies including disaster insurance schemes and disasters management funds which can act as fiscal buffers and help to lower the burden on Government's finances in times of crises. It is pertinent to note that Punjab Resource Improvement and Digital Effectiveness (PRIDE) program, devised by the Government in partnership with the World Bank, includes measures for fiscal incentives for Local Governments to design and implement Disaster Risk Reduction strategy, and regularly report the revenues and expenditures including those incurred to provide relief to vulnerable or affected citizens.

ii. comprehensive databases of citizens containing their socio-economic and health profiles which can help in identifications of the most vulnerable groups of citizens to whom relief needs to be provided on priority basis.

iii. mechanisms for financial inclusion to ensure that direct transfers can be made swiftly into the bank accounts or e-wallets of citizens.

ANNEX-I

REVISION IN RATES OF PUNJAB SALES TAX ON SERVICES

Sr. No.	Description of Service	Rates Applicable prior to Notification	Rate Reduction vide Notification	Rate restored / revised as per Finance Act, 2020
1	Hotels, motels & guesthouses (only for non-corporate, non-franchise, non-chain businesses with less than 20 rooms)	16%	0% without input tax adjustment	5% without input tax adjustment
2	Marriage halls and lawns.	16%	0% without input tax adjustment	5% without input tax adjustment
3	Catering services	16%	0% without input tax adjustment	5% without input tax adjustment
4	Services provided in respect of insurance to a policy holder by an insurer, including a re-insurer for fire insurance, goods insurance, health insurance, life insurance, marine insurance, theft insurance and any other insurance excluding marine insurance for export; and crop insurance	16% of gross premium paid	a) 0% without input tax adjustment for health insurance and life insurance b) 16% of gross premium paid, for others	a) 0% without input tax adjustment for health insurance for individuals b) 16% of gross premium paid, for others
5	Information technology-enabled or information technology-based services.	16%	a) 0% without input tax adjustment for services provided by digital platforms b) 16% for others	5% without input tax adjustment
6	Construction services and services provided by contractors of building (including water supply, gas supply and sanitary works), roads and bridges, electrical and mechanical works etc.	5% without input tax credit / adjustment in respect of Government civil works and 16% percent with input tax credit / adjustment for others.	0% without input tax adjustment.	5% percent without input tax credit / adjustment in respect of Government civil works and 16% percent with input tax credit / adjustment for others
7	Services provided for personal care by beauty parlors, salons, clinics, sliming clinics, spas, and similar other establishments	16%	0% without input tax adjustment	a) 5% without input tax adjustment where payment against services is received through debit or credit cards b) 16% for others
8	Services provided by other consultants	16%	0% without input tax adjustment	16%

Sr. No.	Description of Service	Rates Applicable prior to Notification	Rate Reduction vide Notification	Rate restored / revised as per Finance Act, 2020
9	Services provided by tour operators and travel agents including all their allied services or facilities	16%	0% without input tax adjustment	5% without input tax adjustment
10	Services provided by property dealers.	16%	0% without input tax adjustment	5% without input tax adjustment
11	Services provided in respect of rent-a-car	16%	0% without input tax adjustment	5% without input tax adjustment for services provided to end consumers; and 16% for others
12	Services provided by car/automobile dealers	16%	0% without input tax adjustment	a) 16% for services provided by companies or authorized dealers b) 5% without input tax adjustment, for others
13	Services provided in specified fields such as health care, gym, physical fitness, indoor sports, games, amusement parks, arcades and other recreation facilities etc.	16%	0% without input tax adjustment	5% without input tax adjustment
14	Services provided by laundries and dry cleaners	16%	0% without input tax adjustment	16%
15	Services provided by cable TV operators	16%	0% without input tax adjustment	5% without input tax adjustment
16	Services in respect of treatment of textile & leather	16%	0% without input tax adjustment	5% without input tax adjustment
17	Apartment house management, real estate management and services of rent collection	16%	0% without input tax adjustment	5% without input tax adjustment
18	i. Medical consultation/ visit fee exceeding Rs.1,500 per consultation/ visit of doctors, medical practitioners, and medical specialists. ii. Bed/room charges of hospitals exceeding Rs.6,000/- per day per bed / room	5% percent without input tax adjustment	0% without input tax adjustment	0% without input tax adjustment