

**RATIONALIZATION OF STAMP
DUTIES ON FINANCIAL ASSETS
AND TRANSACTIONS**

Policy Paper No. 1

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AND TRANSACTIONS**

By

*Aisha Ghaus-Pasha
A. Rauf Khan*

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AND TRANSACTIONS**

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RATIONALIZATION OF STAMP DUTIES ON FINANCIAL ASSETS AND TRANSACTION

EXECUTIVE SUMMARY

Stamp duty, the largest source (45 percent currently) of tax revenue of provincial governments. The overall buoyancy of stamp duty revenues with respect to the gross domestic product is estimated to be 1.2 for the period 1980-81 to 1992-93. This high buoyancy can be attributed largely to growth in the component of the tax from property transactions.

Stamp Duty is levied on a variety of financial, legal, property and shipping related transactions. These can be broadly classified into judicial and non-judicial stamps. About 95 percent of the revenues accrue from the sale of non-judicial stamps. The most important component of this is the sale of stamps for use in various types of financial, administrative and property related transactions. The other types of non-judicial stamps include duty on other documents, fines and penalties, refunds and others. These together account for about 9 percent of total stamp duty revenues. Revenues from judicial stamps currently account for only about 6 percent of stamp duty revenues. These include revenues from court fees, fines and penalties and refunds.

The Stamp Act under which the stamp duty is collected was promulgated in 1899. Thus the basic structure of stamp duty rates was formulated a longtime ago. Over the years the provincial governments have adopted a strategy of selective, ad-hoc duty rate revisions on particular documents and have not gone in for comprehensive revision of duty rates. As a consequence the current structure has a number of peculiar features; first, some of the rates have not been revised since the formulation of the act and are therefore, very low; second, the structure is fraught with anomalies where potentially a higher duty rate is charged on a lower volume of transaction (for example reconveyance of property or appraisal or valuation where a Rs 1000 transaction is liable to a higher duty than a Rs 1001 transaction); third, duty on some administrative/legal documents, in particular, continues to be on a flat rate basis, resulting in a low buoyancy in revenues and finally, classification of duty slabs have ceased to be meaningful. The current rate structure is a combination of specific and advalorem rates, ranging from very low to very high with some interprovincial differences.

Some effort has been made in recent years in both the provinces to enhance stamp duty rates. Duty rates on some property related and financial instruments, in particular, have been revised in the last few years. Both the governments of Sindh and Punjab have improved the system of valuation to improve stamp duty collections in recent years from property. However, rates have remained unchanged, particularly on other documents, for the last many years highlighting scope for rate revisions, additionally so because of attrition due to inflation.

The objectives of a reform strategy, on the one hand, should be to remove these anomalies and make the structure up to date, progressive, and buoyant while, on the other hand, should be to exploit more efficiently the full potential of this revenue source. Stamp duty on most administrative/legal documents is currently on specific, flat rate basis. The purpose presumably is to keep the structure simple and minimize discretion. However, there are certain documents such as letters of credit, articles and memorandum of association of a company and letter of allotment of shares, where an advalorem stamp

duty is easy to assess and collect. Switchover in such a case will not only increase the elasticity of revenues and result in higher resource mobilization but will also make the structure more progressive. The concept of revisions proposed in the study is that an advalorem rate in x paisas per Rs 100 is collected upto a maximum amount, beyond which there are economies of scale in tax payment. Also, a reasonable minimum amount of stamp duty is suggested to preserve legality of each document. A higher escalation is proposed in the case of higher value documents involving corporate transactions in view of equity considerations.

Rental income from properties is significantly under taxed as a whole in the country. Stamp duty rate on rental agreements is also currently very low, at a flat rate of Rs 10, and has remained so for many years. In view of the rapid rise in property values in the country during the last two decades, an enhancement in stamp duty rates appears to be justified. The proposed new rate is Rs 50 per rental document. Stamp duty on transfer of shares is currently 1.5 percent and has remained unchanged for almost a decade or so. It is suggested that the duty rate be enhanced to 2.0 percent of the face value of the shares. Rates on a multitude of administrative, legal and other documents can be enhanced in either Sindh or Punjab to the maximum level prevailing in the two provinces.

Identification of potential new areas like stamp duty on bonds under section 15 of the Stamp Duty Act to cover bonds/saving certificates of DFIs, National Investment Trust, National Development Finance Corporation, Pakistan Investment Credit and Investment Corporation, Bankers Equity Ltd., and Water and Power Development Authority. Stamp duty at a rate of 0.5 percent of face value can be collected at the time of sale of bonds. Another potential area of extension is the bill of entry on import consignments. A minimum duty of Rs 50 plus 5 paisa per Rs 100 [maximum of Rs 500] is proposed. Duty on the above two is both easy to assess and collect and will not increase the costs of collection significantly.

To maximise the absorption capacity of the proposed package, it is suggested that the package be implemented in a phased manner. The implementation of the package is recommended to start from 1995-96. Quantification of the additional revenue impact of the proposals is done by projecting the relevant tax bases at historical growth rates. About 50 percent of these incremental revenues are generated through increase in stamp duty rates, some 32 percent through an extension in the coverage of stamp duties while the remaining 18 percent are through a switchover in the nature of the duty from specific to advalorem.

It is expected that if all of these proposals are adopted, the potential additional yield accruing to the provinces commodity cumulative would be of the order of Rs 1.7 billion by the year 2002-03.

RATIONALIZATION OF STAMP DUTIES

There was consensus in the conference on Expenditure Planning and Resource Mobilisation that the process of revenue generation from stamp duties should shift from immovable property to financial and other assets. The general perception was that current duty rates on properties are high while rates on financial, administrative, legal and shipping transactions are low and as a consequence revenues from the latter component have not shown a high buoyancy over time. The purpose of this report is to see if scope exists for enhancing revenues from stamp duties (other than those on property) either through rate enhancement and/or change in the nature of tax levy, that is, by a switchover from specific to ad-valorem taxation. We start first in Chapter 1 with the trend in stamp duty revenues. Chapter 2 gives composition of revenues while chapter 3 discusses the structure of duty rates. Potential areas of reforms and scope for extension in the coverage of stamp duties is presented in chapters 4. Finally, phasing of implementation of proposals and additional revenue generation is given in the last chapter.

CHAPTER ONE

TREND IN STAMP DUTY REVENUES

The Government of India introduced stamps in 1847. After various changes the stamp Act of 1899 was enacted which is still in force, with slight changes. The Stamp Act is purely a fiscal statute. Its sole objective is to increase revenues and all its provisions must be construed as having in view the protection of revenues. It, however, also helps in the detection of forgery of documents.

Stamp duty is the single largest source of tax revenue of the provincial governments. It currently accounts for about 45 percent of the total provincial tax receipts (see table 1.1). Revenues have increased rapidly from Rs 620 million in 1980-81 to Rs 3942 million in 1992-93 at an average annual rate of about 17 percent. As compared to this total provincial tax receipts have increased at about 12 percent per annum only.

The overall buoyancy of stamp duty revenues with respect to the gross domestic product is estimated to be 1.2 for the period 1980-81 to 1992-93. This high buoyancy can largely be attributed to growth in the property tax component of the tax. In particular, the provincial governments of Sindh and Punjab have put in significant effort to improve the valuation of properties in recent years.

TABLE 1.1

TREND IN STAMP DUTY REVENUES, 1980-81 TO 1992-93

[Rs in Million]

Years	Stamp Duty Revenues	Total Tax Revenues	Stamp Duty as % of Total Taxes
1980-81	620	2192	28.3
1981-82	698	2366	29.5
1982-83	759	2586	29.4
1983-84	819	2841	28.8
1984-85	929	3174	29.3
1985-86	943	3374	27.9
1986-87	1285	3581	35.9
1987-88	1395	4036	34.6
1988-89	1709	4547	37.6
1989-90	1789	5023	35.6
1990-91	2522	6764	37.3
1991-92	3526	7761	45.4
1992-93	3942	8788	44.9
<u>ACGR[?]</u>	<u>16.7</u>	<u>12.3</u>	<u>3.9</u>

Source: Annual Budget Statements of the provinces.

[?] Annual cumulative growth rate.

CHAPTER TWO

COMPOSITION OF STAMP DUTY REVENUES

Stamp Duty is levied on a variety of financial, legal, property and shipping related transactions. These can broadly be classified into judicial and non-judicial stamps. A brief description of these is presented below.

2.1 Revenues from Non-Judicial Stamps

The composition of stamp duty revenues is presented in table 2.1. The table shows that about 95 percent of the revenues accrue from the sale of non-judicial stamps. The most important component of this is the sale of stamps for use in various types of financial, administrative and property related transactions. In 1992-93 total revenues from the sale of non-judicial stamps was about Rs 3.4 billion. The share of this component in total stamp duty revenues has increased over time.

The other types of non-judicial stamps include duty on other documents, fines and penalties, refunds and others. These together account for about 9 percent of total stamp duty revenues.

2.2 Revenues from Judicial Stamps

Revenues from judicial stamps currently account for only about 6 percent of stamp duty revenues. These include revenues from court fees, fines and penalties and refunds. The decline in court fees in the late 70s and early 80s and the specific nature of the levy are the primary reasons for the low and declining share of this component in overall stamp duty revenues.

TABLE 2.1

COMPOSITION OF STAMP DUTY REVENUE IN PAKISTAN

[Rs. in Million]

Years	NON - JUDICIAL						JUDICIAL					
	Stamp Duties	Sale of Stamps	Duty on Other Documents	Fine & Penalties	Refunds	Miscellaneous	Total	Court Fees	Fine & Penalties	Refunds	Total	
1979-80	450	337	72	0	35	14	389	60	1	0	61	
1980-81	620	498	80	0	41	10	547	72	1	0	73	
1981-82	698	522	111	0	46	25	612	84	1	0	85	
1982-83	759	569	149	0	80	32	670	88	1	0	89	
1983-84	819	606	164	0	80	27	717	100	1	0	101	
1984-85	929	715	180	0	89	32	838	90	1	0	91	
1985-86	943	751	152	0	79	32	856	86	1	0	87	
1986-87	1285	1080	153	1	87	33	1180	103	2	0	105	
1987-88	1395	1189	160	1	96	33	1286	104	5	0	108	
1988-89	1709	1489	167	1	104	33	1586	117	5	0	123	
1989-90	1789	1546	185	2	106	33	1661	124	4	0	129	
1990-91	2522	2051	377	4	84	29	2387	130	6	0	135	
1991-92	3526	3071	295	5	23	9	3357	166	5	0	169	
1992-93	3942	3398	322	6	2	12	3736	222	5	21	206	
				<i>Percentage Share</i>								
1979-80	100.0	75.0	16.1	0.0	7.7	3.1	86.4	13.4	0.18	0.00	13.6	
1992-93	100.0	86.2	8.2	0.1	0.1	0.3	94.8	5.6	0.13	0.54	5.2	

Source: Annual Budget Statement.

A study of composition of the sale of stamps in Karachi shows that bulk of the stamps sold are special adhesive stamps which are used in all kinds of financial and legal transactions. These account for 63 percent of total sale of stamps. The second category includes non-judicial stamps or stamp papers which are also used for various types of documentation, accounting for 9 percent of the sale of stamps. Similarly, 9 percent of the sale is accounted for by share transfers, while foreign bills, used for foreign bills of exchange, account for 8 percent of total sale. Other types of stamps include revenue insurance and notary stamps etc. [see table 2.2].

2.3 Denomination of Stamps: *Case Study of Sindh*

Total number of stamps sold and their value by denomination is given in table 2.3. The bulk of stamps sold are of 50 paisa denomination accounting for 37 percent of stamps sold. However, given the low denomination, these account for less than 3 percent of the total value of sale of stamps. In terms of value, highest contribution is by stamps of Rs 10,000 denomination. It is not possible to relate the denomination of stamps to the type of document it is used for. Depending on the duty rate, multiple denomination of stamps are generally used in each document.

Stamps with a denomination of less than Re 1 together account for only about 3 percent of the sale while their share in total number of stamps sold is about 38 percent. Given that these denominations generally have not been revised since the framing of the stamp act, some adjustment for inflation is long over due. It is suggested that the minimum value of stamps be raised to Re 1.

TABLE 2.2
COMPOSITION OF SALES OF STAMPS IN KARACHI

	Stamp	Type of Transaction	Share in Total (%)
1.	Non-Judicial Stamps	Stamp paper	9.1
2.	Hundi Stamp [?]	Business Community, loans, etc.	0.0
3.	Revenue Stamps	Acknowledgement, etc.	3.3
4.	Insurance Stamps [?]	Insurance policy, etc.	3.2
5.	Share Transfer [?]	Transactions related to share)	8.8
6.	Foreign Bills [?]	Foreign bill of exchange	8.2
7.	Special Adhesive Stamps	General	63.4
8.	Brokers Note [?]	Stock exchange brokage	0.0
9.	Agreement Stamp [?]	Agreements	0.0
10.	Notarial Stamps	Notary public	0.1
11.	Court Fees	Court Fees	4.0
	TOTAL		100.0

[?] Transaction is held in Karachi only.

TABLE 2.3

DENOMINATION OF STAMPS [SINDH 1990-91]

Denomin- ation of Stamps [in Rs]	Total of Non- Judicial Stamps [000 Nos]	Total of Judicial Stamps [000 Nos]	Grand Total of Stamps [000 Nos]	Sales of Non- Judicial Stamps [000 Rs]	Sales of Judicial Stamps [000 Rs]	Total Sales of Stamps [000 Rs]	Share in Total Sales [%]
0.05	50.0	0.0	50.0	2.5	0.0	2.5	0.0004
0.25	15.0	23.4	38.4	3.8	5.9	9.6	0.002
0.50	28220.1	169.4	28389.6	14110.1	84.7	14194.8	2.71
0.75	607.5	0.0	607.5	455.6	0.0	455.6	0.09
1.00	4770.3	1622.3	6392.6	4770.3	1622.3	6392.6	1.22
1.50	40.0	40.5	80.6	60.0	60.8	120.9	0.02
2.00	2194.1	801.9	2986.0	4368.2	1603.7	5972.0	1.14
3.00	2363.8	5.1	2369.8	7091.3	15.2	7106.4	1.36
4.00	2715.9	3.2	2719.1	10863.6	12.9	10876.4	2.08
5.00	2393.4	121.2	2514.5	11966.9	605.8	12572.7	2.40
6.00	597.6	0.0	597.6	3585.4	0.0	3585.4	0.69
9.00	5.0	0.0	5.0	45.0	0.0	45.0	0.01
10.00	3804.7	31.9	3836.7	38047.4	319.3	38366.7	7.34
15.00	46.1	0.2	46.4	692.0	3.3	695.3	0.13
20.00	79.0	35.8	114.7	1579.1	715.8	2294.9	0.44
25.00	57.6	0.5	58.1	1439.4	13.6	1452.9	0.28
30.00	347.8	0.1	347.9	10432.6	3.1	10435.7	2.00
35.00	2.4	0.5	2.9	84.6	15.9	100.5	0.02
40.00	8.0	0.1	8.1	318.2	4.4	322.7	0.06
45.00	33.5	0.1	33.6	1507.6	5.3	1512.9	0.29
50.00	414.3	0.3	414.6	20713.9	16.5	20730.4	3.96
60.00	50.4	0.1	50.5	3025.8	4.5	3030.3	0.58
70.00	0.0	0.0	0.0	0.0	0.3	0.3	0.0001
75.00	14.4	0.3	14.7	1077.3	21.6	1098.9	0.21
80.00	0.0	0.1	0.1	0.0	4.6	4.6	0.001
100.00	160.3	0.4	160.7	16032	37.4	16069.9	3.07
125.00	0.0	0.1	0.1	0.0	16.0	16.0	0.003
150.00	5.5	0.3	5.8	821.0	52.2	873.2	0.17
200.00	97.0	0.8	97.8	19407.8	150.2	19558.0	3.74
250.00	4.1	0.6	4.6	1013.3	148.0	1161.3	0.22
300.00	10.9	0.6	11.5	3274.8	184.2	3459.0	0.66
400.00	3.0	0.9	4.0	1202.8	379.6	1582.4	0.30
500.00	52.6	4.4	56.9	26282.5	2191.5	28474.0	5.44
750.00	0.0	0.0	0.0	19.5	0.0	19.5	0.004
1000.00	41.6	0.6	42.0	41565.0	449.0	42014.0	8.03
2000.00	4.7	0.4	5.1	9360.0	798.0	10158.0	1.94
3000.00	2.1	4.6	6.7	6267.0	13923.0	20190.0	3.86
5000.00	7.6	0.2	7.7	37780.0	865.0	38645.0	7.39
10000.00	19.9	0.0	19.9	199370.0	0.0	199370.0	38.12

Source: The GOS Provincial Tax Base Study, DISI Consulting Group.

CHAPTER THREE

STRUCTURE OF STAMP DUTY RATES

The Stamp Act under which the stamp duty is collected was promulgated in 1899. Thus the basic structure of stamp duty rates was formulated a longtime ago. Over the years the provincial governments have adopted a strategy of selective, ad-hoc duty rate revisions on particular documents and have not gone in for comprehensive revision of duty rates. As a consequence the current structure has a number of peculiar features: first, some of the rates have not been revised since the formulation of the act and are therefore very low; second, the structure is fraught with anomalies where potentially a higher duty rate is charged on a lower volume of transaction, (examples is reconveyance of property or appraisal or valuation where a Rs 1000 transaction is liable to higher duty than a Rs 1001 transaction), third, duty on some administrative/legal documents, in particular, continues to be on a flat rate basis, resulting in a low buoyancy in revenues and finally, classification of duty slabs have ceased to be meaningful. There is need to increase them in line with inflation.

We discuss below the level and structure of stamp duty rates, concentrating our analysis on the two biggest provinces which account for 96.8 percent of stamp duty revenues in the country.

3.1 Rate Structure

Stamp duty rates on major transactions in Punjab and Sindh are presented in table 3.1. The rate structure is a combination of specific and advalorem rates, ranging from very low to very high with some interprovincial differences. By and large, it appears that duty rates are relatively high on property related transactions being as high as 6 to 9 percent in the two provinces. Rates also

TABLE 3.1

STAMP DUTY RATES ON MAJOR DOCUMENTS

Art. #	<u>PUNJAB</u>		<u>SINDH</u>		
	Type of Tax	Rate	Type of Tax	Rate	
A. <u>NEGOTIABLE INSTRUMENTS</u>					
13	Bill of Exchange	A	0.01	A	0.02
15	Bonds	A	2.0	A	4.5
27	Debentures	A	3.0	A	3.5
49	Promissory Notes	A	0.01-0.2	S	11.25
B. <u>MORTGAGE/CONVEYANCE/TRANSFER/EXCHANGE</u>					
Mortgage					
40	Deed	A	1-6	A	1-9
41	of a Corporation	A	0.125	A	0.125
	With Possession	A	5-10	A	7-9
	Without Possession	A	2	A	4.5
32	Further Charge				
	With Possession	A	5-6	A	7-9
	Without Possession	A	2	A	4.5
23	Conveyance				
	Agricultural Land & Rural Area	A	5	A	7
	Others (only Urban Area)	A	8.5-10	A	9
54	Reconveyance of Mortgage				
	Less than Rs 1000	A	2	A	4.5
	Otherwise	S	50	S	30
62	Transfer of:				
	Shares	A	1.5	A	1.5
	Debentures	A	3	A	3
	Property	S	50	S	30
	Trust Property	S	20	S	20
31	Exchange of Property				
	Agricultural Land	A	2	A	7
	Otherwise	A	5	A	9
33	Gift/Hiring				
	Legal Hire	A	1-2	A	7-9
	Otherwise	A	5-6	S	10
35	C. <u>LEASE</u>				
	Fixed Land Without Advance				
	Upto 3 years	A	2	A	4.5
	Above 3 years	A	3	A	3.5
	Otherwise	A	5-10	A	7-9

Art. #		<u>PUNJAB</u>		<u>SINDH</u>	
		Type of Tax	Rate	Type of Tax	Rate
63	Transfer of Lease	A	5-10	A	7-9
61	Surrender of Lease	S	30-50	A	3.5-4.5
47	D. <u>INSURANCE</u>				
	Sea	A	0.002-0.003	A	0.006-0.009
	Life	A	0.04	A	0.12
	E. <u>ADMINISTRATION/LEGAL</u>				
2	Administration Bond				
	Less than Rs 1000	S	20	A	4.5
	Others	S	50	S	30
3	Adoption Deed	S	50	S	50
4	Affidavit	S	4	S	10
7	Appointment in Execution of Trustee or Property	S	35.70	S	35.70
8	Appraisement or Valuation				
	Less than Rs 1000	S	20	A	4.5
	Others	S	50	S	30
38	Letter of Licence	S	50	S	25
57	Indemnity Bond/Security Bond				
	Less than Rs 1000	A	2	A	4.5
	Others	S	50	S	50
48	Powe of Attorney				
	To sell property	A	5-10	A	7-9
	For a Single Transaction	S	10	S	25-50
	For more than one transaction	S	50	S	75-100
5	Agreement or its Memorandum Relating to sale of				
	Bill of Exchange	S	1	S	1
	Government Security	A	0.005	A	0.005
	Share of incorporated or Other Companies	A	0.005	A	0.005
	Others	S	10	S	10
6	Agreement related to De-Pawn or Pledge				
	Less than 3 months	A	0.01	A	0.01
	Others	A	0.01	A	0.02
46	Instrument/dissolution of Partnership				
	Capital upto Rs 500	S	50	S	10
	Others	S	50	S	50
	Dissolution	S	25	S	25

Art. #	<u>PUNJAB</u>		<u>SINDH</u>		
	Type of Tax	Rate	Type of Tax	Rate	
43	Note Memorandum				
	Any good exceeding Rs 20 Stock or security other than Government Security	S A	2 0.04	S A	0.5 0.005
	Government Security	A	0.01	A	0.0025
	Others	S	2	S	0.5
9	Apprenticeship Deed	S	50	S	25
11	Article of Clerkship	S	750	S	500
29	Divorce	S	15	S	15
42	Notarial Act	S	5	S	4
10	Articles of Association with Share Capital (SC)			S	50
	SC ? 2500	S	100	S	125
	2500 < SC < 100,000	S	200.00	S	500
	100,000 SC < 100,0000	S	1000	S	750
	> 100,00000	S	2500	S	750
39	Memorandum of Association If accompanied by Articles:				
	Of association	S	100	S	75
	Otherwise	S	250	S	200
64	Trust	A	2	A	4.5
36	Letter of Allotment of Share	S	2	S	0.5
59	Share Warrants	A	4.5	A	5.25
37	Letter of Credit	S	2	S	10-50
53	Receipts				
	< Rs 100	S	0.15		0
	Rs 100 < value < Rs 2000	S	0.4	S	1
	Rs 2000 to Rs 10000	S	1	S	1
	Rs 10000 and above	S	2	S	1
1	Acknowledge of Debt				
	Rs 20 < x < 100	S	0.15		0
	Above Rs 10000	S	2	S	1
<u>F. SHIPPING</u>					
14	Bill of Lading	S	1	S	10
16	Bottomry Bond	A	2	A	4.5
20	Charter Party		0	S	5
26	i) Customs Bond	A	2	A	4.5
	ii) > Rs. 1000	S	50	S	40
28	Delivery Order in Respect of Goods	S	2	S	5
44	Note of Protest by the Master of Ship	S	5	S	4
51	Protest by the Master of a Ship	S	5	S	1
56	Respondentia Bond	A	2	A	4.5
60	Shipping Order	S	2	S	0.25
65	Warrant for Goods		0	S	2

A = Ad-Valorem Rate in Percent.

S = Specific Rate in Rupees

appear to be high on negotiable instruments, particularly bonds, in the province of Sindh. As opposed to this, rates are rather low on administrative/legal, insurance and shipping related documents.

Furthermore, the general pattern appears to be that duty rates are advalorem (or graduated -specific) on property related document and negotiable instruments. As compared to this rates are, by and large, specific on administrative/legal, insurance and shipping documents. As already mentioned, this is one of the primary reasons why revenues from these documents have a relatively low buoyancy.

Even though there are inter-provincial difference in the duty rates, there do not appear to be major differences in the nature of duties charged on different documents across provinces. In general ad valorem rates on negotiable instruments and properties are higher in Sindh than in Punjab. Alternatively, specific rates on some administrative/legal documents are higher in Punjab compared to Sindh. Scope, therefore, exists for selective enhancement in rates in both the provinces.

3.2 Rate Revisions

Some effort has been made in recent years in both the provinces to enhance stamp duty rates. Table 3.2 gives the last year of duty rate escalation in both the provinces. As can be seen from the table duty rates on some property related and financial instruments, in particular, have been revised in the last few years. However, rates on other documents have remained unchanged for the last many years highlighting scope for rate revisions.

TABLE 3.2

YEAR OF EFFECTIVENESS OF PRESENT RATES

Art. #		<u>PUNJAB</u>	<u>SINDH</u>
	A. <u>NEGOTIABLE INSTRUMENTS</u>		
13	Bill of Exchange	1969	1989
15	Bonds	1969	1991
27	Debentures	1969	1982
49	Promissory Notes	1990	1989
	B. <u>MORTGAGE/CONVEYANCE/TRANSFER/EXCHANGE</u>		
	Mortgage		
40	Deed	1969	1969
41	of a Corporation	1990	1991
	With Possession	1992	1990
	Without Possession	1969	1969
32	Further Charge		
	With Possession	1992	1990
	Without Possession	1969	1969
23	Conveyance		
	Agricultural Land & Rural Area	1990	1990
	Others (only Urban Area)	1992	1990
54	Reconveyance of Mortgage		
	Less than Rs 1000	1969	1969
	Otherwise	1990	1969
62	Transfer of:		
	Shares	1990	1981
	Debentures	1990	1981
	Property	1990	1969
	Trust Property	1990	1969
31	Exchange of Property		
	Agricultural Land	1990	1990
	Otherwise	1990	1990
33	Gift/Hiring		
	Legal Hire	1975	1990
	Otherwise	1975	1989
35	C. <u>LEASE</u>		
	Fixed Land Without Advance		
	Upto 3 years	1969	1969
	Above 3 years	1969	1969

Art. #	<u>PUNJAB</u>	<u>SINDH</u>	
63	Transfer of Lease	1992	1990
61	Surrender of Lease	1990	1991
47	D. <u>INSURANCE</u>		
	Sea	1969	1990
	Life 1969	1990	
	E. <u>ADMINISTRATION/LEGAL</u>		
2	Administration Bond		
	Less than Rs 1000	1969	1969
	Others	1990	1969
3	Adoption Deed	1969	1969
4	Affidavit	1990	1989
7	Appointment in Execution of Trustee or Property	1969	1969
8	Appraisalment or Valuation		
	Less than Rs 1000	1969	1969
	Others	1990	1969
38	Letter of Licence	1990	1969
57	Indemnity Bond/Security Bond		
	Less than Rs 1000	1969	1969
	Others	1990	1991
48	Powe of Attorney		
	To sell property	1992	1990
	For a Single Transaction	1969	1989
	For more than one transaction	1990	1982
5	Agreement or its Memorandum Relating to sale of		
	Bill of Exchange	1969	1969
	Government Security	1969	1991
	Share of incorporated or Other Companies	1990	1991
	Others	1990	1977
6	Agreement related to De-Pawn or Pledge		
	Less than 3 months	1969	1969
	Others	1969	1969
46	Instrument/dissolution of Partnership Capital upto Rs 500	1990	1969

Art. #	<u>PUNJAB</u>	<u>SINDH</u>
43	Note Memorandum	
	Any good exceeding Rs 20	1990
	Stock or security other than	1990
	Government Security	1969
	Government Security	1969
	Others	1969
9	Apprenticeship Deed	1990
11	Article of Clerkship	1990
29	Divorce	1969
42	Notarial Act	1990
10	Articles of Association with Share Capital (SC)	
	SC ? 2500	1990
	2500 < SC < 100,000	1990
	100,000 SC < 100,0000	1990
	> 100,00000	1990
39	Memorandum of Association If accompanied by Articles:	
	Of association	1990
	Otherwise	1990
64	Trust	1990
36	Letter of Allotment of Share	1990
59	Share Warrants	1969
37	Letter of Credit	1990
53	Receipts	
	< Rs 100	1969
	Rs 100 < value < Rs 2000	1990
	Rs 2000 to Rs 10000	1990
	Rs 10000 and above	1969
1	Acknowledge of Debt	
	Rs 20 < x < 100	1990
	Above Rs 10000	1990
	F. SHIPPING	
14	Bill of Lading	1969
16	Bottomry Bond	1969
20	Charter Party	--
26	i) Customs Bond	1969
	ii) > Rs. 1000	1990
28	Delivery Order in Respect of Goods	1990
44	Note of Protest by the Master of Ship	1990
51	Protest by the Master of a Ship	1990
56	Respondentia Bond	1969
60	Shipping Order	1990
65	Warrant for Goods	--

CHAPTER FOUR

POTENTIAL AREAS OF REFORMS

4.1 Strategy of Reforms

Our analysis in the previous chapter highlights the existence of certain anomalies problems in the stamp duties structure in the two largest provinces. As such, the objectives of a reform strategy should be is on one hand to remove these anomalies and make the structure up to date, progressive, and buoyant while on the other hand to exploit more efficiently the full potential of this revenue source. The latter is indeed the primary objective for the collection of stamp duties. In line with the above the main components of the proposed reform strategy are the following: (1) adjustment of some of the duty slabs for inflation to make them more update and meaningful; (2) enhancement of duty rates which are currently very low and have not been revised for the last few years; (3) change in the basis of levy, from specific to ad valorem rates structure wherever feasible and with substantial revenue gains (4) removal of imbalance in the duty revenue structure by putting in a higher effort in non-property documents; (5) extension of the coverage of stamp duties to feasible new areas.

Based on the above criteria a number of recommendations are made below.

4.2 Switchover from Specific to Ad Valorem Rates

As already mentioned, stamp duty on most administrative/legal documents is currently on specific, flat rate basis. The purpose presumably is to keep the structure simple and minimise discretion. Also in some cases an advalorem structure is either not possible due to absence of values or it is

administratively infeasible. Example include affidavits, divorce, adoption deeds etc. where only specific duty can be collected.

However, there are certain documents where an advalorem stamp duty is easy to assess and collect. Switchover in such a case will not only increase the elasticity of revenues and result in higher resource mobilisation but will also make the structure more progressive. A switchover is recommended in the following cases:

***Potential Areas of
Switchover from Specific to Ad valorem Rates***

Section	Description of Document
37	Letters of Credit
10	Articles of Association of a company
39	Memorandum of Association of a company
36	Letter of Allotment of Shares

It may be mentioned here that switchover in the above cases is easy because the relevant documents have a statement of valuation and therefore, the problem of discretion in assessment does not arise and the duty structure continues to remain simple. The proposed rate structures are presented in table 4.1. The concept of revisions proposed is that an advalorem rate in x paise per 100 Rs is collected upto a maximum amount, beyond which there are economies of scale in tax payment. Also, a reasonable minimum amount of stamp duty is suggested to preserve legality of each document. A higher escalation is proposed in the case of higher value documents involving corporate transactions in view of equity considerations.

TABLE 4.1

EXISTING AND PROPOSED STAMP DUTY RATES

	<u>EXISTING</u>		Proposed
	Punjab	Sindh	
A. Letter of Credit			
Amount of			
0 - 50000	Rs 2	10	Rs 10 plus
50000 - 500000	"	25	5 paisas per Rs 100
500000 and above	"	50	(maximum of Rs 500)
B. Articles of Association of a Company			
Share Capital of:			
0 - 2500	100	50	Rs 100 plus
2500 - 100000	200	125	10 paisas per Rs 100
100000 - 1000000	300	500	(maximum Rs 5000)
1000000 - 5000000	1000	750	
5000000 and above	2500	"	
C. Memorandum of Association of a Company			
If accompanied by articles of Association	100	75	Rs 100 plus 100 paisas per Rs 100
Otherwise	250	200	(maximum of Rs 5000)
D. Letter of Allotment of Shares			
	2	0.50	Rs 5 plus 10 paisas per Rs 100 (maximum Rs 200)

4.3 Enhancement in Rates

Enhancement in rates is justified in cases where current duty rates are low and have not been revised for the last many years. Furthermore, inter provincial variations in duty, rates also provide easy identification of areas where enhancement is justified on grounds of harmonisation of rates across provinces.

Immediate enhancement in stamp duty rates is justified in view of both undertaxation of relatively buoyant bases and rapid inflation in the following cases:

- 1) Property rental documents and
- 2) Transfer of shares

Rental income from properties is significantly undertaxed as a whole in the country. Stamp duty rate is also currently very low, at a flat Rs 10, and has remained so for many years. In view of the rapid rise in property values in the country during the last two decades, an enhancement in stamp duty rates appears to be justified. The proposed new rate is Rs 50 per rental document.

Similarly significant buoyancy has been witnessed in the share market during the last few years which has not benefited the public exchequer in view of the exemption of capital gains from income tax. Stamp duty on transfer of shares is currently 1.5 percent and has remained unchanged for almost a decade or so. It is suggested that the duty rate be enhanced to 2.0 percent of the face value of the stamps.

Finally, stamp duty rates on a multitude of administrative, legal and other documents can be enhanced in either Sindh or Punjab to the maximum level prevailing in the two province. This process alongwith enhancement of minimum stamp value to Re 1 can generate substantial revenues for the provincial governments.

4.4 Extension in the Coverage of Stamp Duties

We move next to the identification of potential new areas for the levy of stamp duties through either broadening the definition of stamp duty base or extension to easily tepable new areas with significant revenue potential. Two such potential areas include first, levy of stamp duty on bonds under section 15 of the stamp duty act to cover bonds/saving certificates of DFIs, National Investment Trust, National Development Finance Corporation, Pakistan Investment Credit Corporation, Banker Equity and Water and Power Development Authority. Stamp duty at a rate of 1/2% of face value can be collected at the time of sale of bonds. Many of these bonds are bearer in character and carry relatively low rate (fixed at 10 percent) of income tax.

Another potential area of extension is the bill of entry on import consignments. The ongoing process of tariff reforms whereby custom duty rates are being sealed down substantially open up the possibility of a small imposition by financial governments. A minimum duty of Rs 50 plus 5 paisa per Rs 100 [maximum of Rs 500] is proposed. Duty on the above two is both easy to assess and collect and will not increase the costs of collection significantly. Also, these are buoyant sources with minimum distortionary consequences.

CHAPTER FIVE

PHASING OF IMPLEMENTATION OF PROPOSALS AND ADDITIONAL REVENUE GENERATION

To maximise the absorption capacity of the proposed package, it is suggested that the package be implemented in a phased manner. The implementation of the package is recommended to start from 1995-96, with implementation of the suggested increase in duty rates and a transition from specific to advalorem rate in the case of letters of credit only. In the following year it is suggested that memorandum and articles of association of a company and letter of allotment of shares be made ad valorem alongwith the extension in the definition of section 15 to include bonds of DFI, BEL etc. Finally, in the subsequent year, bill of entry may be brought into stamp duty net.

Quantification of the additional revenue impact of the proposals is done by projecting the relevant tax bases at historical growth rates. For example, gains from switchover to advalorem rates is estimated by projecting the number of letter-of credit, (LC) and the number of new companies being established each year in the case of switchover etc. [For detailed quantifications see the appendix].

Yearwise additional revenue generation from the package is presented in table 5.1. In the first year of its introduction the package is likely to generate Rs 400 million. Incremental revenues from the package increase as additional proposals are implemented and in the last year of the analysis, 2002-03, additional revenues of Rs 1708 million are projected. This implies that revenues from stamp duty would be higher by about 10 percent over their projected level, i.e. in

TABLE 5.1

PHASING OF PROPOSALS AND ADDITIONAL REVENUE

[Rs in Million]

Proposal/Year	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
A. Switchover to Advalorem	85	131	149	169	193	220	251	287
! Letter of Credit	85	96	107	121	136	153	172	194
! Articles & Memorandum of Association	)	12	14	16	19	22	26	31
! Allotment Letters of Shares	)	23	28	32	38	45	53	62
B. Increase in Duty Rates	315	364	421	487	563	652	756	876
! Transfers of Shares	85	100	117	138	162	190	224	264
! Rental Documents	30	34	40	45	52	60	69	80
! Harmonisation across Provinces/Increase in Minimum Stamp	200	230	264	304	349	402	463	532
C. Extension in Coverage	0	69	292	331	375	425	481	545
! Bonds	)	69	79	91	105	121	139	160
! Bill of Entry	)	)	213	240	270	304	342	385
D. Total	400	564	862	987	1131	1277	1488	1708
E. Project Stamp Duty Revenue? (In the absence of any Proposals)	6153	7137	8279	9604	11141	12923	14991	17390
F. Additional Revenue as % of Projected Revenues	6.5	7.9	10.4	10.3	10.2	10.0	9.9	9.8
G. Total Revenues (with proposals)	6553	7701	9141	10591	12272	14190	15479	19098

the absence of any proposals. About 50 percent of these incremental revenues are generated through increase in stamp duty rates, some 32 percent through an extension in the coverage of stamp duties while the remaining 18 percent are through a switchover in the nature of the duty from specific to advalorem.