



MOTORING TO SUCCESS: REALIZING MOTOR VEHICLE TAX POTENTIAL IN KHYBER PAKHTUNKHWA

EXCISE, TAXATION & NARCOTICS
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MOTORING TO SUCCESS: REALIZING MOTOR VEHICLE TAX POTENTIAL IN KHYBER PAKHTUNKHWA

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Acronyms

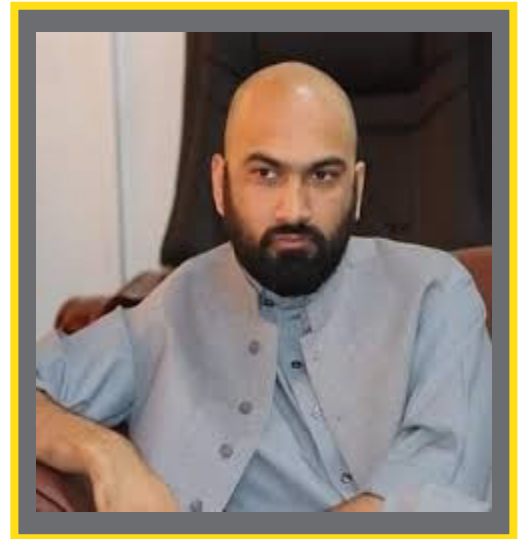
AIT	Advance Income Tax
ANPR	Auto Number Plate Recognition
ET&NCD	Excise, Taxation & Narcotics Control Department
HIES	Household Integrated Economic Survey
MVT	Motor Vehicle Taxes
NFC	National Finance Commission
NMDs	Newly Merged Districts
OCR	Optical Character Recognition
OMCs	Oil Marketing Companies
STS	Sales Tax on Services

Key Messages



Message from Special Assistant to the Chief Minister for Excise, Taxation and Narcotics Control Department, Government of Khyber Pakhtunkhwa

Motor vehicle tax (MVT) is one in the class of sub-national taxes that has the potential of calibrating benefits against payments. The Government of Khyber Pakhtunkhwa is committed to allocating public resources to sectors which have the highest economic and social returns. Expanding and improving road-infrastructure is one such catalyst that facilitates economic growth. However, to keep the highways efficient, resources will have to be allocated for their maintenance and repair. Motor vehicle taxes are one way to charge the users for the benefit they receive from the use of roads and setting the virtuous cycle, where revenues from MVT partially finance public investment in new roads and maintenance of existing road-infrastructure.



Ghazi Ghazan Jamal

In Khyber Pakhtunkhwa, revenues from MVTs have remained sub-optimal and are not commensurate with the provincial government's spending on maintenance and upkeep of its highways. One reason for the province's revenue from MVTs not increasing at a natural growth rate is the shifting preference of motor vehicle owners for out-of-province, particularly Islamabad registrations. This is resulting not only in loss of revenue for the provincial government but has also strained the policy makers' capacity to optimally manage urban traffic.

This note very aptly structures the issue, scientifically investigates the reasons behind vehicle owners' preference for Islamabad's registrations, and generates evidence for policymaking. The set of reforms suggested are logical discourse for correcting the asymmetry in vehicle registrations and increasing the revenue from MVTs.

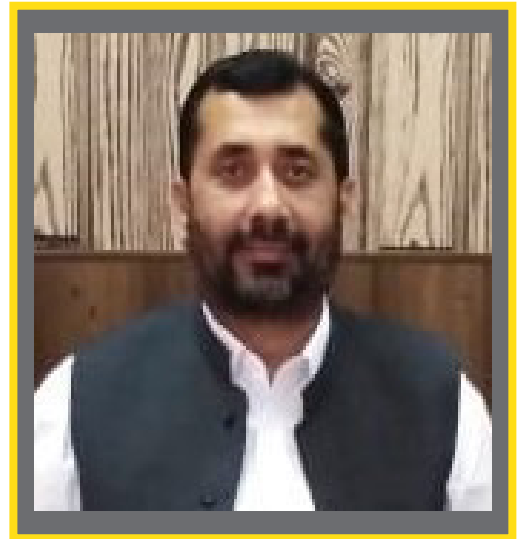
Message from Secretary Excise, Taxation and Narcotics Control Department, Government of Khyber Pakhtunkhwa

Increasing own source revenue is a key challenge the government of Khyber Pakhtunkhwa faces today. The taxes collected by Excise, Taxation and Narcotics Control Department (ET&NCD) are important constituents of the overall provincial taxation regime. The provincial government is very keen to modernize its taxation system with the ultimate aim of making it efficient, equitable and easy-to-comply.

Revenues from MVTs in Khyber Pakhtunkhwa have not shown the extent of linearity in their growth as would be warranted by a natural growth in new vehicle ownership by Khyber Pakhtunkhwa's residents. A predominantly perceived reason for this phenomenon has been the shifting pattern of vehicle owners' choice of registration from Khyber Pakhtunkhwa to elsewhere. Answers to questions

such as what the extent of migration of the registration base is and what are the causes for migration, are a precursor to policy reforms in this area. This note tests the hypothesis relating to vehicle owners' preference for outside-of-Khyber Pakhtunkhwa registrations, probes reasons for why this is so, and gives direction for reforms.

It is heartening to note that some of the reforms suggested in the note have already been initiated by the ET&NCD. The Department is currently working on improving the backend system and centralization of vehicle records that will pave the way for e-payments and data sharing with other law enforcement agencies. I am confident that the ongoing reforms will augment the 'revamping of registration plates' as recommended in this note.



Islam Zaib

Message from Team Leader, Sustainable Energy and Economic Development (SEED) Programme

Sustainable Energy and Economic Development (SEED) Programme, funded by UK's Foreign, Commonwealth & Development Office (FCDO), is aimed at generating higher levels of public and private investments in Khyber Pakhtunkhwa. The quantum of public investment however is restrained by the available fiscal space and therefore SEED is working very closely with the Government of Khyber Pakhtunkhwa to explore various options for resource mobilization.

Motor Vehicle Tax (MVT) is one area, where the government has been struggling to generate revenues but somehow the pace of vehicle registration has been quite slow. It has been a common perception that Islamabad – owing to its proximity with Khyber Pakhtunkhwa, digitized record and better perception - is the preferred destination for the residents of the province to get their vehicles registered. However, up till now there had been no effort to substantiate this claim or to analyze the problem in a structured manner.

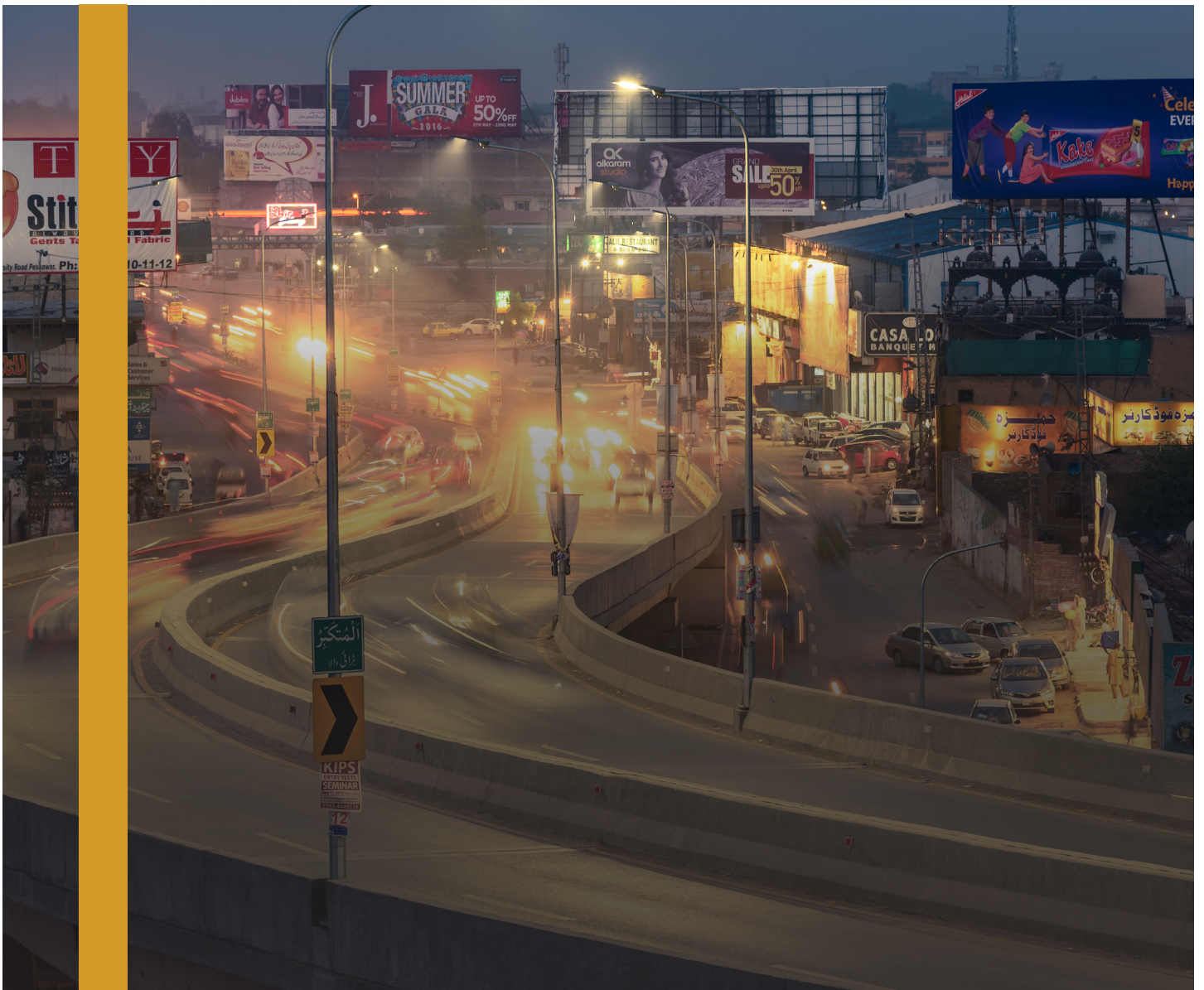
The Government of Khyber Pakhtunkhwa therefore requested SEED to provide support in this regard. The SEED team undertook an online survey through PakWheels, arranged a focus group discussion with motor vehicle dealers, met multiple stakeholders in Khyber Pakhtunkhwa and Islamabad, and analyzed the available data. This note consolidates the results of all these findings and provide insights into the dynamics of motor vehicle registration in Khyber Pakhtunkhwa. The note also provides a number of recommendations in this regard.

I hope that SEED will be able to help the Government of Khyber Pakhtunkhwa in reforming the MVT regime, leading to increased public investment, ultimately contributing in achieving the growth and prosperity agenda of the province.



Hassan Khawar

Executive Summary



The Government of Khyber Pakhtunkhwa relies heavily on revenues received from Federal Government as ‘tax assignment’ through the National Finance Commission (NFC) mechanism. Federal transfers contribute about 91% of the total receipts of the provincial government. Of the remaining 9% of own source revenue, Motor Vehicle Taxes (MVT) contribute only 2.3%. The share of MVT in total own source receipts has reduced from 4.2% in 2013-14 to 2.3% in 2019-20.

Revenue base for MVT comprises of the number (quantity) of vehicles and their value. One might expect natural revenue growth from MVTs in Khyber Pakhtunkhwa as both the number and value of vehicles have been increasing. However, there has been a gradual decrease in motor vehicle registrations in Khyber Pakhtunkhwa. Despite an increase in average income of urban households in the top quintile from PKR 66,773 in 2013-14 to PKR 76,268 in 2018-19, the number of motor car registrations has fallen from 4,094 in 2013-14 to 892 during 2018-19.² It is reasonable, therefore, to deduce that vehicle owners from Khyber Pakhtunkhwa tend to register their vehicles out-of-province. This can have implications for MVT collections with revenue leaking to other provinces in perpetuity, besides constraining urban planners’ capacity to optimally plan for traffic management and infrastructure improvement.

This note explores decline in MVT in Khyber Pakhtunkhwa and:

- Analyzes trends in motor vehicle registrations in Khyber Pakhtunkhwa and Islamabad (the latter is widely perceived as being the out-of-province destination for Khyber Pakhtunkhwa’s residents’ vehicle registrations).
 - Tests the hypothesis that Khyber Pakhtunkhwa’s residents prefer to register their vehicles out-of-province, particularly in Islamabad and seeks to understand reasons for this preference.
 - Makes recommendations regarding parametric and structural reforms that the Government of Khyber Pakhtunkhwa can adopt to correct for the distortion in motor vehicle registrations.
- 1. Trends in motor vehicle registration: Khyber Pakhtunkhwa vs. Islamabad**

Vehicle registrations data shows that:

- On average, 42,303 motor cars are being registered annually in Islamabad as compared to 1,689 motor cars in Khyber Pakhtunkhwa (based on data on private and commercial vehicle registrations from 2011 to 2019).
- Islamabad has a significantly higher base for the categories of motor cars, jeeps and vans.
- Motor cars and jeeps constitute about 88% of the base in Islamabad (in the category of four wheelers), while in Khyber Pakhtunkhwa, this proportion is less than 15%.
- There is a gradual decrease in registrations of motor cars in Khyber Pakhtunkhwa (at an average annual rate of 10.7%) while in the case of Islamabad registrations have exhibited an average annual growth rate of 6.6%.

The above indicates that part of the registration base of motor vehicles of Khyber Pakhtunkhwa may be captured by registrations in Islamabad.

² Household Integrated Economic Survey (HIES) 2013-14 (Table 11) and HIES 2018-19 (Table 11)

However, as MVT rates are the same in Khyber Pakhtunkhwa and Islamabad for motor cars, this policy parameter does not explain the shifting trend in registrations.

2. Do Khyber Pakhtunkhwa residents prefer to register their vehicles out-of-province, particularly in Islamabad? What are the reasons for this preference?

The note employs qualitative and quantitative tools to test the hypothesis that Khyber Pakhtunkhwa residents prefer to register their vehicles out-of-province and to understand what drives this behavior. Of the 1597 randomly selected vehicle owning residents of Khyber Pakhtunkhwa surveyed through PakWheels as part of this study, 27% (424) had Khyber Pakhtunkhwa registrations while the remaining 73% (1173) registered vehicles out-of-province. About 75% (878) of respondents with vehicles registered outside of Khyber Pakhtunkhwa had registered these in Islamabad.³

About 57% of the 1173 respondents with out-of-province registrations believed that high resale value was the main reason why they preferred registration outside of Khyber Pakhtunkhwa. Another 20% of respondents considered ease of interprovincial mobility, while a further 12% considered ease of token tax payment outside of Khyber Pakhtunkhwa to be the main reasons for preferring out-of-province registrations.

3. Realizing motor vehicle tax potential in Khyber Pakhtunkhwa

The note outlines three main reform options that can be undertaken. First,

only bonafide residents of Islamabad should be able to register their vehicles in Islamabad. This would be possible if the proof of residency requirement is made more stringent and enforced for new registrations in Islamabad. Proof of residency should be linked with the temporary or permanent residence status of the vehicle owner as listed on her/his CNIC. This will eliminate the misuse of bogus rental agreements as is currently the case. While this parametric reform will help reduce revenue leakage, the Government of Khyber Pakhtunkhwa cannot enforce it on its own and would have to engage with Islamabad Capital Territory to do so.

Revamping of registration plates is another parametric reform that can be used to entice vehicle owners to register their vehicles in Khyber Pakhtunkhwa. A properly designed and implemented universal number plate system backed by a centralized and digitized database of vehicle and owner records and more value added features – improved security features, better macroscopic and camera visibility – can influence vehicle owners' choice of registration.

Last, this note prescribes a deeper structural reform that creates a link between road use and MVT as a user charge. Adoption of a provincial motor fuel tax that is levied on an ad valorem basis can be more efficient, equitable and easy to administer. However, levying a provincial motor fuel tax entails differential fuel prices across provinces and will disrupt the uniform pricing policy of the federal government. Inter-provincial consensus will be crucial for adoption of this tax.

³The results are significant as the sample size had been drawn based on 95% confidence interval and 5% significance level.

1. Context



“Vehicles registered outside Khyber Pakhtunkhwa, but being used on Khyber Pakhtunkhwa’s roads, contribute to traffic congestion and road use, but do not pay usage charge – i.e., the token tax – to Khyber Pakhtunkhwa. This causes revenue leakage and limits the capacity of urban planners to optimally manage traffic and infrastructure improvement.”

1.1 Khyber Pakhtunkhwa's Revenue

The Government of Khyber Pakhtunkhwa relies heavily on federal transfers and has a very narrow resource base – about 91% of provincial receipts are contributed by the federal government through National Finance Commission's (NFC) disbursements. When it comes to provincial own receipts, Sales Tax on Services (STS) is the single largest revenue stream accounting for 40.15%⁴ of

provincial own receipts (62.32% of tax receipts). Other taxes like Motor Vehicle Tax (MVT), land revenue and property tax, have miniscule shares of 2.32%, 5.77% and 2.05 % respectively ⁵ (Table 1).

Table 1. Revenue structure of government of Khyber Pakhtunkhwa (PKR Million)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Percent of osr (2019-20)	Annual growth rate
Direct taxes:									
Property and wealth tax	462.99	532.04	667.64	704.61	889.05	1259.07	868.22	2.05%	11.0%
Tax on professions, tradings and callings	135.87	203.62	247.70	243.73	306.95	398.08	676.70	1.60%	30.7%
Agriculture income tax	31.19	66.49	68.83	69.12	66.17	79.27	67.26	0.16%	13.7%
Property registration	111.29	113.17	111.36	122.73	134.27	217.50	251.69	0.60%	14.6%
Land revenue	1492.59	1834.23	2011.14	1220.69	1350.89	2861.22	2438.17	5.77%	8.5%
Urban CVT	263.51	288.11	280.67	358.58	393.95	454.86	448.98	1.06%	9.3%
Indirect taxes:									
Sales tax on services	5668.22	6279.63	7267.08	10273.33	10916.94	10353.68	16966.01	40.15%	20.0%
Provincial excise	25.12	23.35	15.63	24.26	25.43	60.365	29.28	0.07%	2.6%
Stamp duties	712.94	817.18	831.43	956.05	1235.50	1539.51	1699.21	4.02%	15.6%
Motor vehicle tax	844.39	766.08	906.68	981.09	1025.91	1099.09	981.95	2.32%	2.5%
Other indirect taxes	731.77	742.81	871.61	1098.22	1397.93	1915.79	2794.76	6.61%	25.0%
Tax revenue	10479.93	11666.76	13279.81	16052.46	17743.02	20238.48	27222.29	64.42%	17.2%
Non-tax revenue	9530.75	11039.71	12296.62	12294.54	13524.88	21925.89	15037.09	35.58%	7.9%
Provincial own source revenue	20010.68	22706.47	25576.44	28347.01	31267.90	42164.37	42259.39	100.00%	13.3%

Source: Financial Management Information Unit (FMIU), Finance Department, GoKP

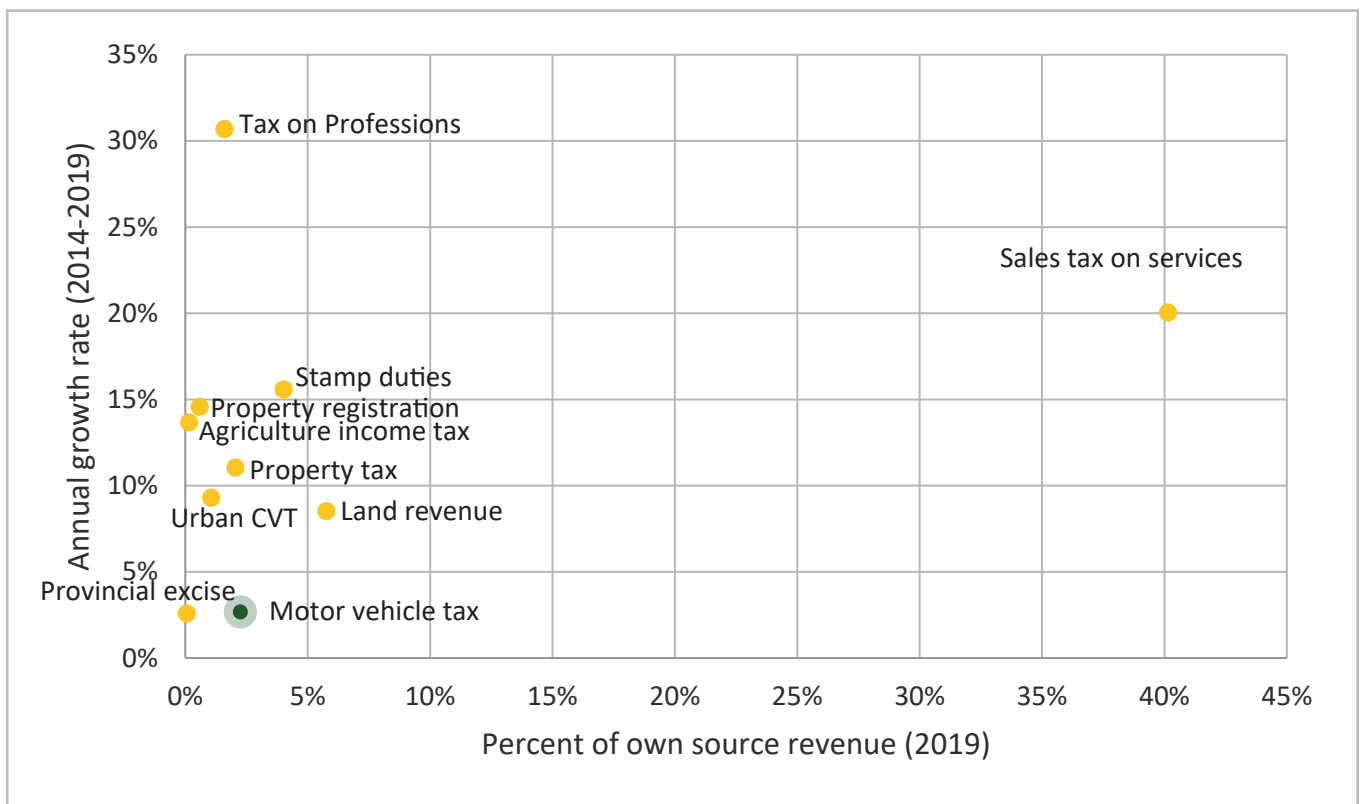
⁴ PKR 16.9bn in 2019-20

⁵ Financial Management Information Unit, Finance Department, Government of Khyber Pakhtunkhwa

While Table 1 outlines current contributions, it does not show what contributions could look like if full revenue potential is reached. The province does have access to some taxes that have broad enough bases and potentially enough built-in growth to form a more revenue productive tax system. This includes property tax, MVT, and STS. Figure 1 depicts the relative positions of

selected provincial taxes in terms of their footprint in provincial own-source revenue and their annual growth rate. MVT has a shrunken share in the overall revenue base and a modest annual average growth rate of 2.5%.

Figure 1. Foot print of provincial taxes



There are two MVTs being collected by the Excise, Taxation and Narcotics Control Department (ET&NCD): a one-time registration fee and an annual tax (also known as “token tax”). In per capita terms, these MVTs equal only about PKR 32 (down by PKR 4 from collection in 2018-19) and account for 2.3% of own source revenues and about 0.02 percent of Gross Domestic Product (GDP) (Table 2).

The base of both MVTs is some combination of the number of motor vehicles, their value, and their engine capacity. ‘Base effect’ on revenue is captured by growth in the number of vehicles and increase in vehicle value. Registration fee is applied at an ad valorem rate.

Table 2. Revenue from Motor Vehicle Taxes

Years	Own Source Revenue	MVT (Million Rs) ^a	Percent of own source revenue ^b	Per capita nominal amount (Rs) ^c	Percent of GDP ^d
2013-14	20010.69	844.399	4.2	31.4	0.04
2014-15	22706.47	766.086	3.4	27.7	0.03
2015-16	25576.44	906.686	3.5	31.8	0.03
2016-17	28347.01	981.096	3.5	33.5	0.03
2017-18	31267.91	1025.913	3.3	33.6	0.03
2018-19	31810.69	1099.091	3.5	36.0	0.03
2019-20	42259.39	981.96	2.3	32.2	0.02

Sources:

Calculations are based on:

^a MVT includes both Token tax and Registration fee

^b Provincial revenue time series data provided by Finance Department GoKP

^c Population data estimated at growth rate of 2.82% till 2016-17 while for 2017-18 and onwards, census data of 2017 is used

^d KP GDP estimates from World Bank (2015)

1.2 Trends in Motor Vehicle Registrations: Khyber Pakhtunkhwa vs. Islamabad

One might expect natural revenue growth from MVTs in Khyber Pakhtunkhwa as both the number and value of vehicles have been increasing. However, it is widely held that vehicles' registration is taking place in other regions, particularly Islamabad.⁶ Vehicles registered outside Khyber Pakhtunkhwa, but being used on Khyber Pakhtunkhwa's roads, contribute to traffic congestion and road use, but do not pay usage charge – i.e., the token tax – to Khyber Pakhtunkhwa. This causes revenue leakage and limits the capacity of urban planners to optimally manage traffic and infrastructure improvement.

The registration base of private and commercial vehicles⁷ in Islamabad is significantly higher in the categories of motor cars, jeeps and vans while Khyber Pakhtunkhwa has a higher base for the cate-

gories of motorcycles, buses, trucks, tractors and pickups (Table A1). Vehicle registrations in Khyber Pakhtunkhwa and Islamabad are detailed in Annex-A. Of vehicle registrations in Khyber Pakhtunkhwa, government-owned cars constitute a significant proportion of total registrations. Out of a total of 923 motor cars registered in the province in the year 2019, 43% (393) were government owned (Table A2). Annual averages⁸ for private and commercial registrations in Islamabad are significantly higher than in Khyber Pakhtunkhwa across the categories of motor cars, jeeps and vans (42,303 vs. 1,689, 2,930 vs. 214 and 4,279 vs. 727)⁹. Likewise, the absolute number of registrations of private and commercial cars in Islamabad exhibits a positive trend as shown by deviation of yearly registrations from the mean (Figure 2).

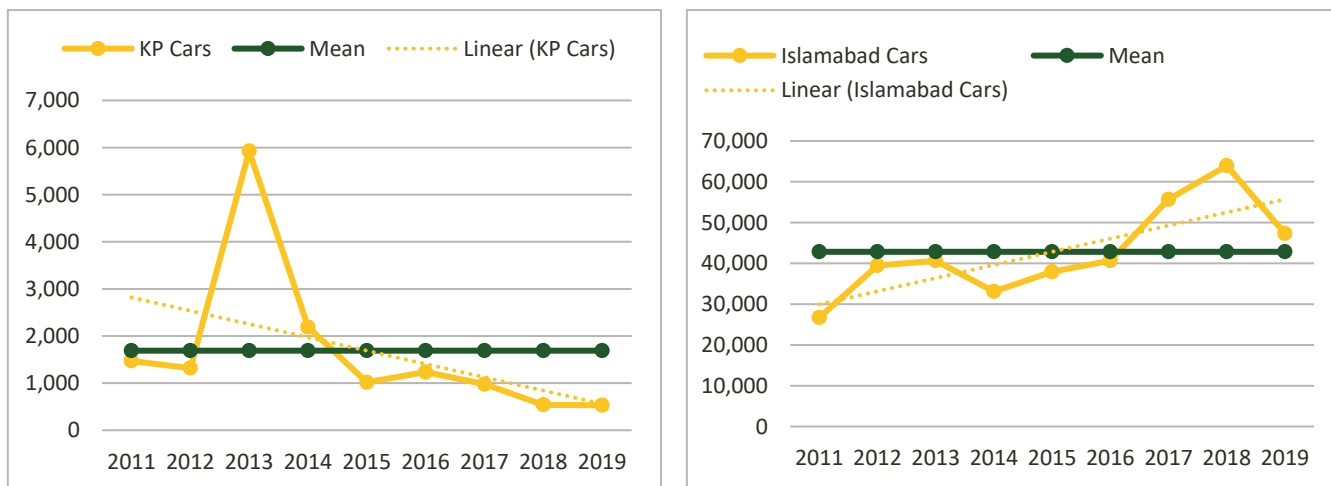
⁶ Commercial vehicles prefer to register in Baluchistan due to low tax rates

⁷ The registrations base for each category is calculated to be the total vehicles registered from 2011 till 2019.

⁸ The averages are calculated over a period of nine years, from 2011 to 2019.

⁹ For commercial and private vehicles only, the owners can exercise their choice of place of registration. Government owned vehicles can only be registered within the respective jurisdiction of the province or the Islamabad Capital Territory, as the case may be, and hence are not considered in comparative analysis.

Figure 2. Dispersion form the mean for total motor cars registered in Khyber Pakhtunkhwa and Islamabad

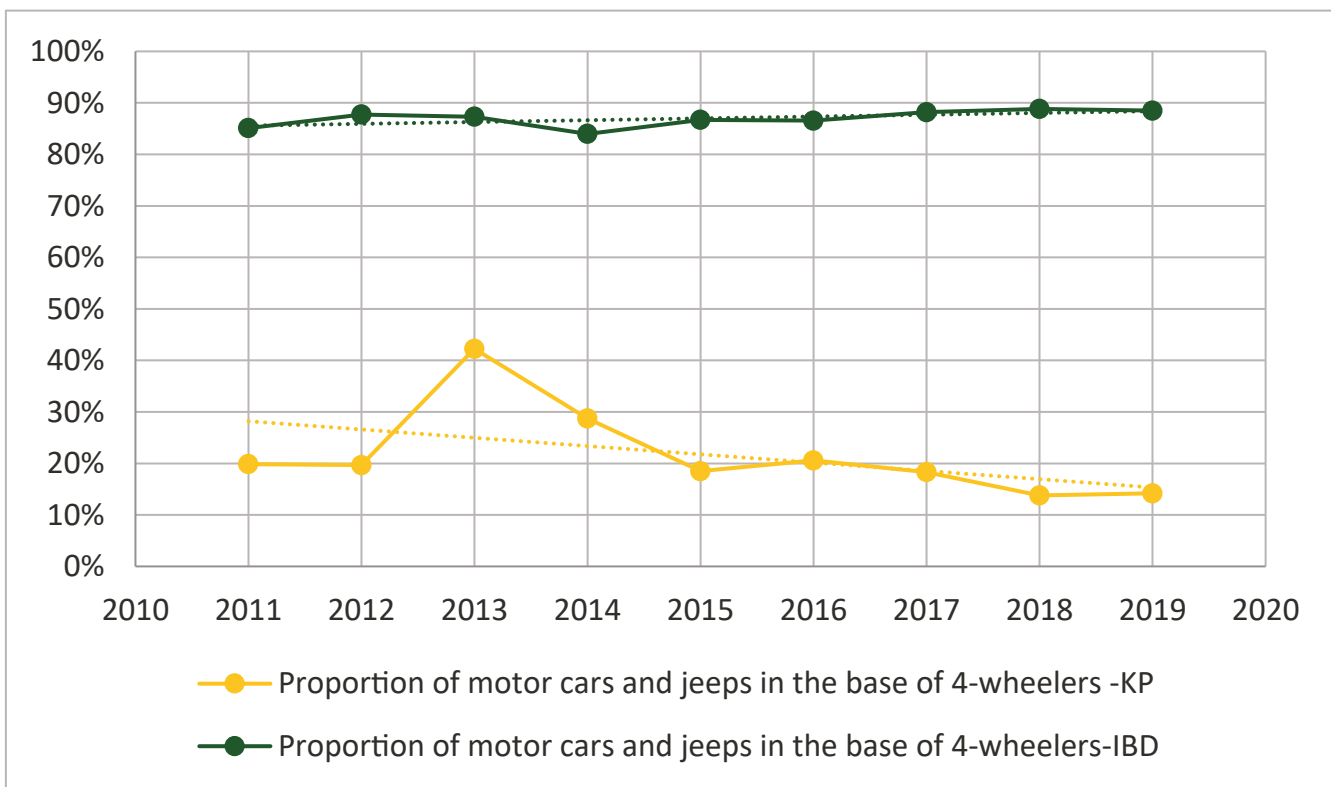


Note: The spike in the year 2013 is due to amnesty scheme announced by FBR for smuggled and non-duty paid vehicles in that year.

A similar trend exists for the footprint of registrations of motor cars and jeeps in the base of four-wheelers. Islamabad has a very high proportion of registered motor cars and jeeps (about 88%) compared to Khyber Pakhtunkhwa (less than 15%). There is a

gradual decrease in the proportion of registrations of motor cars and jeeps in Khyber Pakhtunkhwa (Figure 3) and this decrease appears to have been offset by increase in registration of two-wheelers.

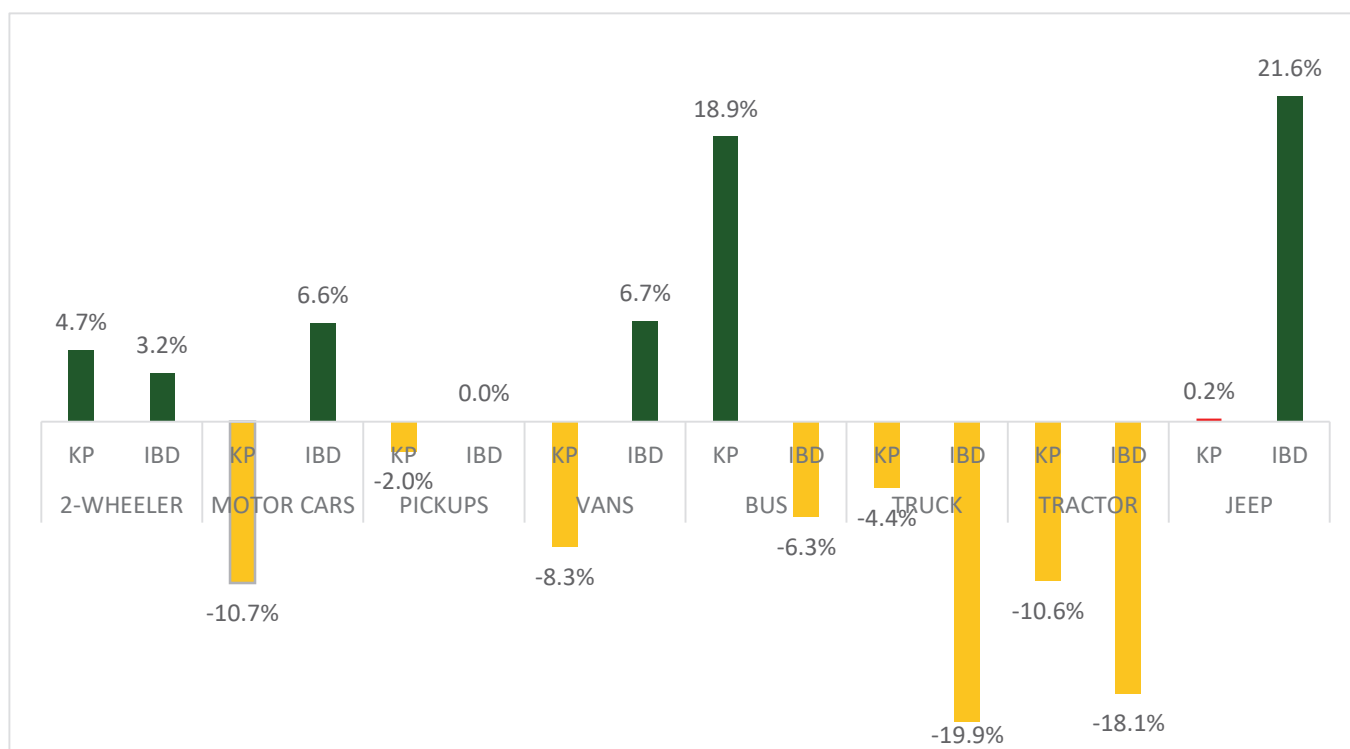
Figure 3. Foot print of motor cars in total registrations in Khyber Pakhtunkhwa and Islamabad



There is progressive reduction in registration of motor vehicles in Khyber Pakhtunkhwa. There may be economic reasons for this, however, contemporaneous average growth rate in two-wheelers (which is even higher than Islamabad) weakens this argument, as motor bikes are predominantly owned by the low-income group (Figure 4). Moreover, the average monthly income

of households in urban Khyber Pakhtunkhwa has increased from PKR 42,882 in 2013-14 to PKR 52,663 in 2018-19.¹⁰ This is comparable to the average of PKR 53,010 for Pakistan and is lower only than Punjab (PKR 55,189). Despite a reasonable average income, every 1000 households in Khyber Pakhtunkhwa possess only 5 cars while every 1000 households in Islamabad possess 7,665 motor cars.¹¹

Figure 4. Average annual growth rates of different categories of vehicles in Khyber Pakhtunkhwa and Islamabad (2011 – 2019)



¹⁰ Household Integrated Economic Survey (HIES) 2013-14 (Table 11) and HIES 2018-19 (Table 11)

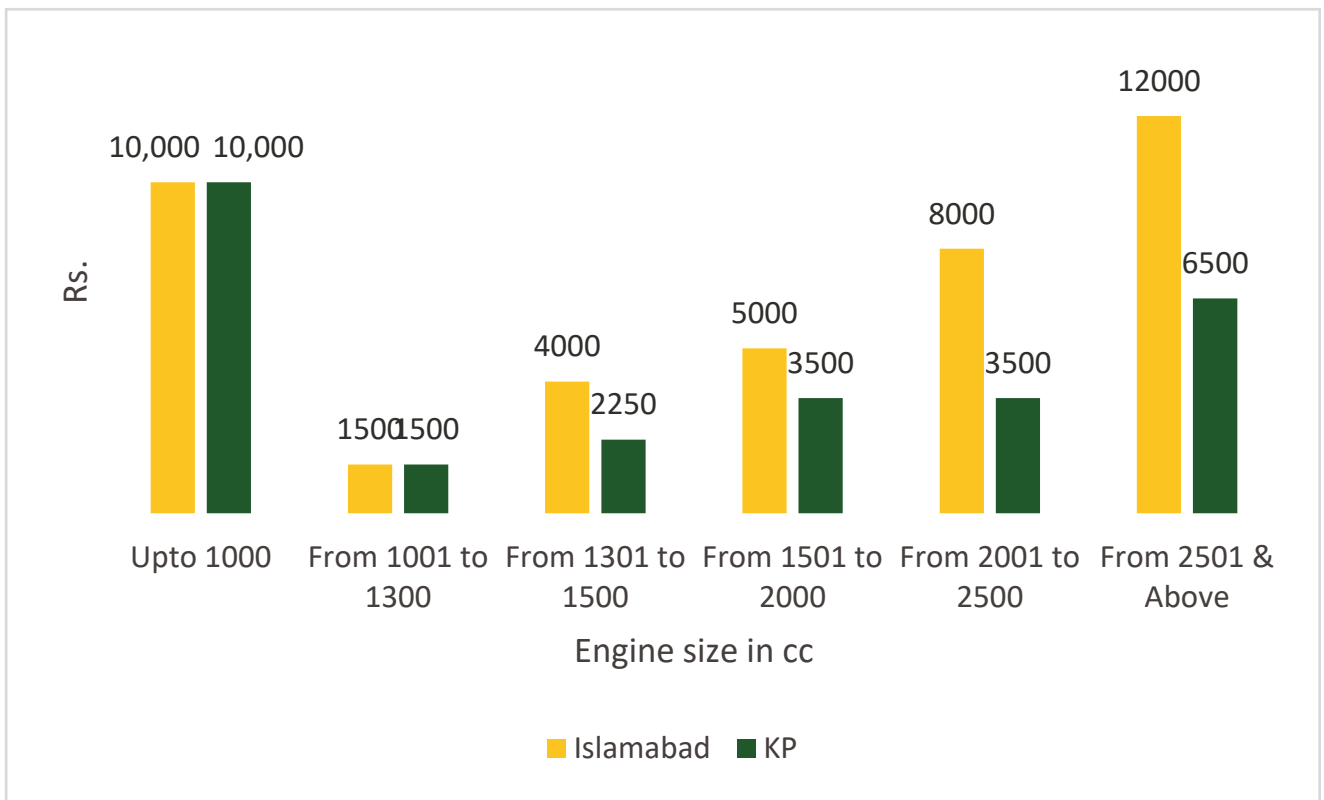
¹¹ Author's calculations based on the data of registrations from 2011 to 2019 under the assumption that households possess only one type of vehicle.

1.2.1 Motor Vehicle Taxation Regime: Khyber Pakhtunkhwa vs. Islamabad

Where regulatory structures and market valuation of registration plates are identical, vehicle owners' decisions about choice of registration region are expected to be driven by the tax rate differential. The tax rate structure of Khyber Pakhtunkhwa and Islamabad is presented in Annex-B. There are three main elements of the taxation structure: 1) Registration fee; 2) Advance Income Tax (AIT); and 3) Token tax. Registration fee is calculated on an ad valorem basis under both regimes and is identical (Table B1). Likewise, AIT is

determined by the Federal Board of Revenue and is the same across all registration authorities (Table B2). With regards to token tax, there are discrete variations in tax rates for different categories of vehicles. In the case of private cars, Khyber Pakhtunkhwa has the same token tax for cars and jeeps up to 1300cc engine size. However, for engine sizes above 1300cc, the tax rate is higher in Islamabad compared with Khyber Pakhtunkhwa (Figure 5). Likewise, by and large, tax rates are higher in Islamabad for different classes of commercial vehicles (Table B3).

Figure 5. Token tax rates in Khyber Pakhtunkhwa and Islamabad



Motor vehicle registrations are taking place outside of Khyber Pakhtunkhwa even though registration fee and token tax is similar for private cars and jeeps up to 1300cc (and token tax is even lower for engine sizes higher than 1300cc in Khyber Pakhtunkhwa compared with Islamabad). This would

imply that lowering token tax rate may not incentivize registrations or re-registration of vehicles in Khyber Pakhtunkhwa. It is, therefore, important to understand external factors influencing vehicle owners' preference for registration in Islamabad or other out-of-province cities.

Key Takeaways

- MVT contributes a very small proportion (2.32%) to provincial own source revenue in Khyber Pakhtunkhwa.
- Annual averages for private and commercial registrations in Islamabad are significantly higher, than in Khyber Pakhtunkhwa, across the categories of motor cars, jeeps and vans.
- There is a gradual decrease in registrations of motor cars and jeeps in Khyber Pakhtunkhwa.
- Decrease in motor car registrations cannot be explained by economic reasons.
- Khyber Pakhtunkhwa vehicles are being registered in Islamabad even though token tax rates are identical in both regions for vehicles with engines up to 1300cc and lower for vehicles with engine sizes above 1300cc in Khyber Pakhtunkhwa.
- Lowering token tax rates may not incentivize registrations or re-registration of vehicles in Khyber Pakhtunkhwa.

2. Understanding why Khyber Pakhtunkhwa residents are registering vehicles out-of-province



The preference for Islamabad-registered vehicles runs deep. About 61% of respondents are not willing to accept any incentive for transferring their registrations to Khyber Pakhtunkhwa.

A Focus Group Discussion (FGD) with automobile car dealers and quantitative survey of vehicle owners were undertaken to better understand why Khyber Pakhtunkhwa residents prefer to register their vehicles outside of the province, particularly in Islamabad.

2.1 Focus Group Discussion: Findings

Discussions with automobile car dealers highlight the following as possible reasons for preferring Islamabad for vehicle registrations:

- i. Unfavourable response of Law Enforcement Agencies (LEA) towards vehicles registered in Khyber Pakhtunkhwa;
- ii. Low resale value for vehicles registered in Khyber Pakhtunkhwa;
- iii. Better and more efficient (automated processes) for vehicle transfer and token tax payment in Islamabad.

The forum was of the view that a uniform number plate with value added features, will remove inter-district disparities and to some extent, contribute to motivating vehicle owners to opt for Khyber Pakhtunkhwa registrations. Concerted enforcement both at the level of Excise Office Islamabad and Khyber Pakhtunkhwa excise was also emphasized.

2.2 Survey: Findings

A quantitative survey was conducted by PakWheels to assess 1) the extent of migration of vehicle registration to out-of-province cities; 2) reasons for preferring out-of-province registrations; 3) willingness to pay for registering or buying Islamabad/other cities registered vehicles, and; 4) willingness to accept for migrating registrations to Khyber Pakhtunkhwa.

The survey was administered to randomly selected vehicle owners, subscribed to PakWheels¹² who are residents of Khyber Pakhtunkhwa with out-of-province registrations. A sample size of 384 was required based on 95% confidence interval and 5% significance level with district-wise disaggregation based on the proportionate share of individual districts in the overall registration base of Khyber Pakhtunkhwa.¹³

The actual response rate was much higher. A total of 1597 vehicle owners who are residents of Khyber Pakhtunkhwa participated in the survey. The distribution of district wise responses is given in the figure 6.¹⁴

¹² PakWheels has an extensive social media outreach which includes over 1.1 Million subscribers of facebook, over a million on youtube, and over three hundred thousand on intstagram.

¹³ The sample size is for the vehicle owners who are KP residents and have outside KP registrations. An ideal universe for sampling would have been all the KP residents having registrations at other than KP cities. But gathering this information is constrained by the fact that vehicle owners' information in data bases of excise offices other than KP purport to be meeting the residency requirement of the respective jurisdiction. Newly Merged Districts (NMDs) were not included in the survey, as these districts are exempted from federal and provincial taxes for a post-merger 5 year period.

¹⁴ The district wise responses are based on the IP addresses of the respondents. Vehicle owners with non-KP IP addresses but reporting to be residents of KP are not shown in the district disaggregation.

Figure 6. District wise distribution of responses

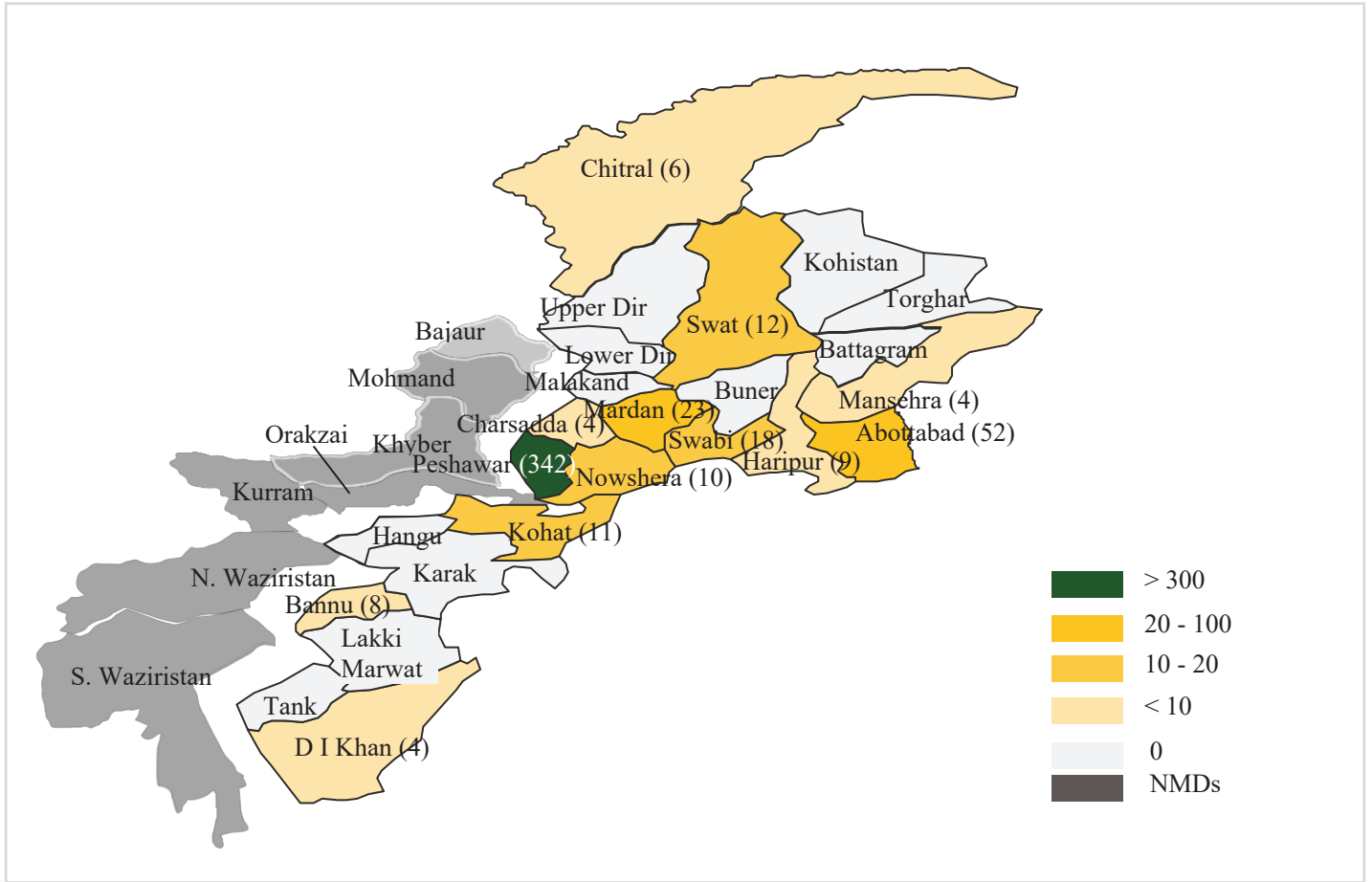
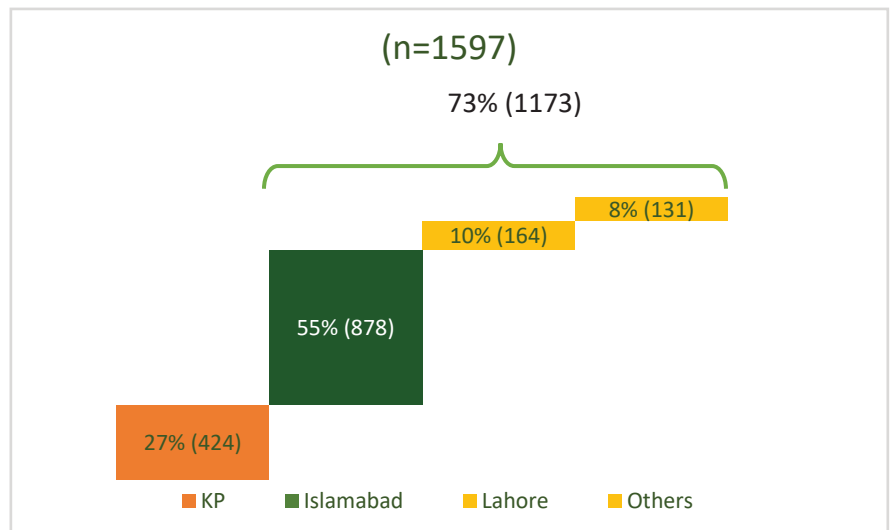


Figure 7. Distribution of vehicles owned by KP residents by place of registration

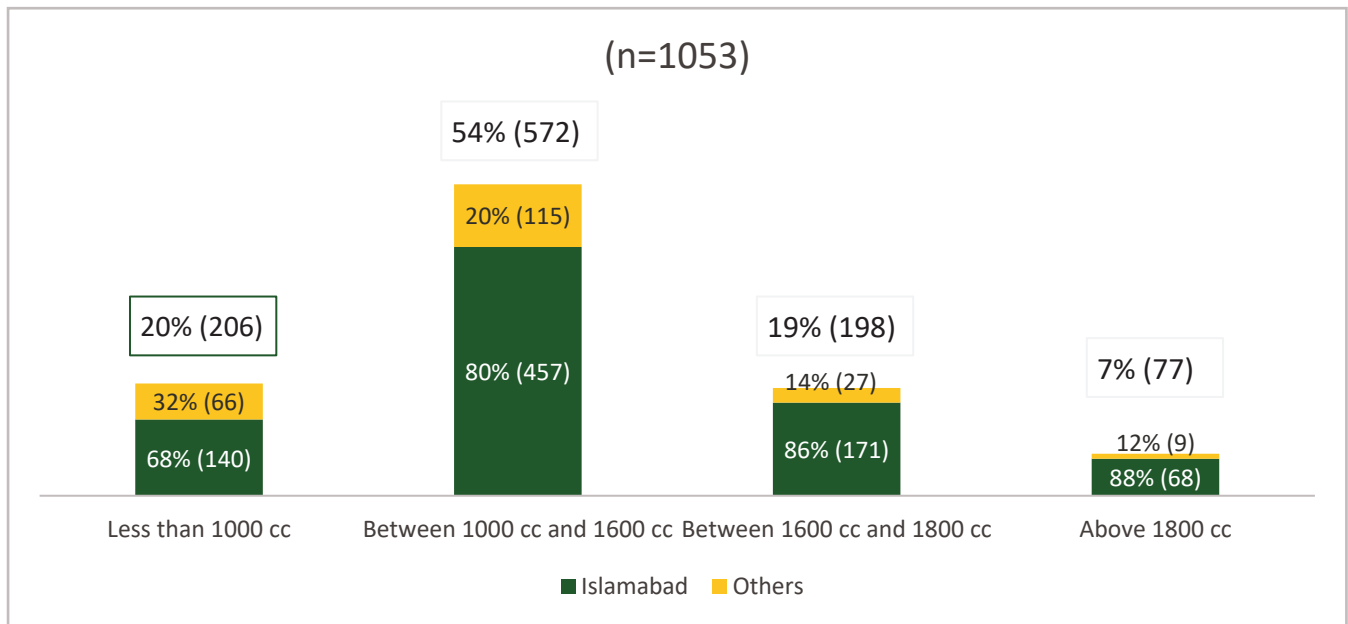
Of the 1597 residents that own vehicles, 27% (424) had Khyber Pakhtunkhwa registrations while the remaining 73% (1173) registered their vehicles out-of-province. 55% or 878 respondents had registered their vehicles in Islamabad and another 18% in other cities outside of Khyber Pakhtunkhwa (Figure 7).



Of the 1173 respondents who are Khyber Pakhtunkhwa residents with out-of-province registrations, a total of 1053 reported the engine size of their cars. 79% (836) had Islamabad-registered vehicles while 21% (217) had registrations from other cities. About 80%

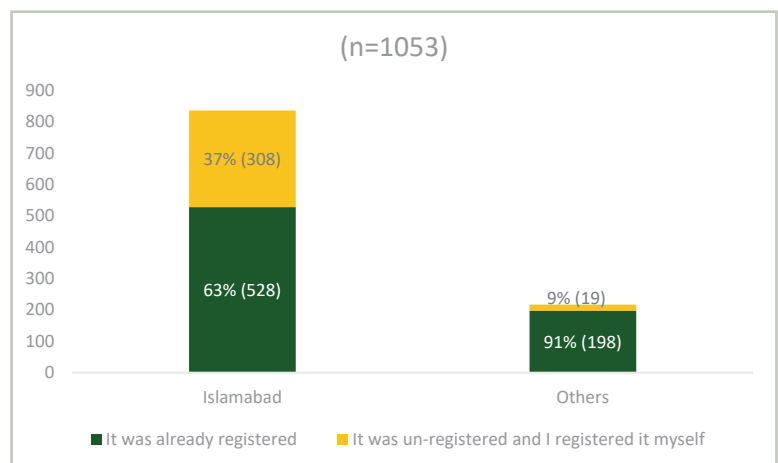
(847) said their vehicles had engine sizes greater than 1000cc. The proportion of Islamabad registered vehicles seemed to increase with engine size and was lower in the case of vehicles with engine sizes below 1000cc at 68% (Figure 8).

Figure 8. Distribution by engine size of vehicles



Vehicle owners either buy registered (used) vehicles or unregistered (new or freshly imported used) vehicles. Of the 836 respondents who had Islamabad-registered vehicles, about 65% (528) had purchased vehicles bearing Islamabad registration plates, while 37% (308) chose to register their vehicles in Islamabad. Of the 217 respondents with vehicle registrations from other cities, 9% (19) self-registered their vehicles. There appears to be a revealed preference from buyers of new vehicles to register their vehicles in Islamabad compared with other out-of-province cities (Figure 9).

Figure 9. Distribution of non-KP registered vehicles disaggregated by self-registrations and existing registrations



816 respondents ranked reasons for preferring out-of-province registrations. 80% (657) cited high resale value of Islamabad-registered vehicles as the top one or two reasons for opting for these. 49% (401) of respondents reported ease of interprovincial mobility as

the top one or two reasons. 44% (359) cited ease of process of paying token tax as the top one or two reasons. For 17% (137) better branding of registration plates was given as the top one or two reasons (Figure 10).

Figure 10. Reasons for preferring Islamabad registration plates.

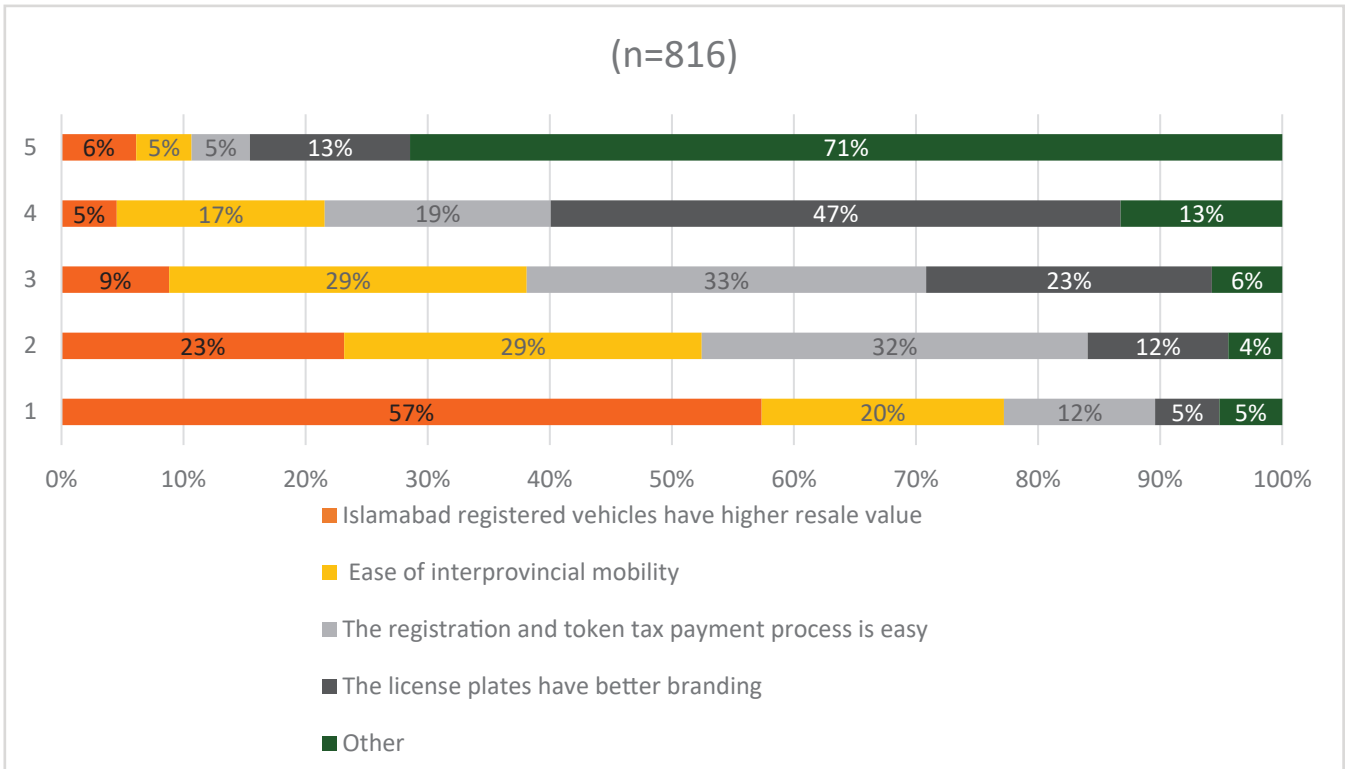
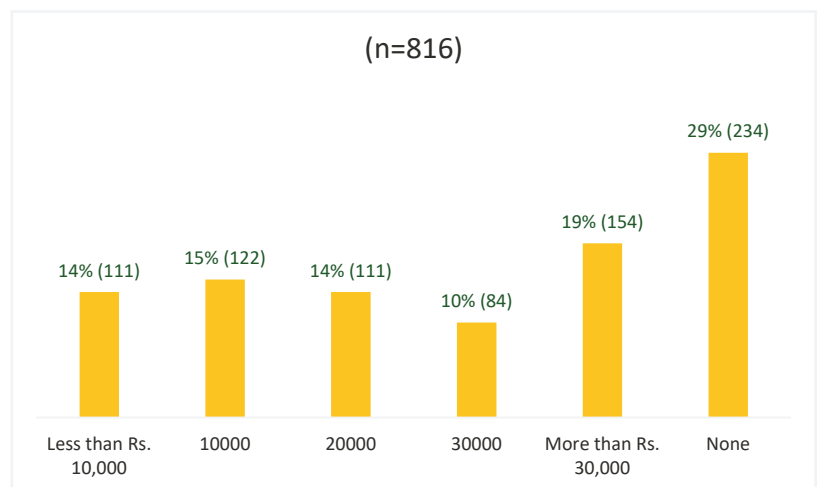


Figure 11. Buyers' willingness to pay for Islamabad registered vehicles

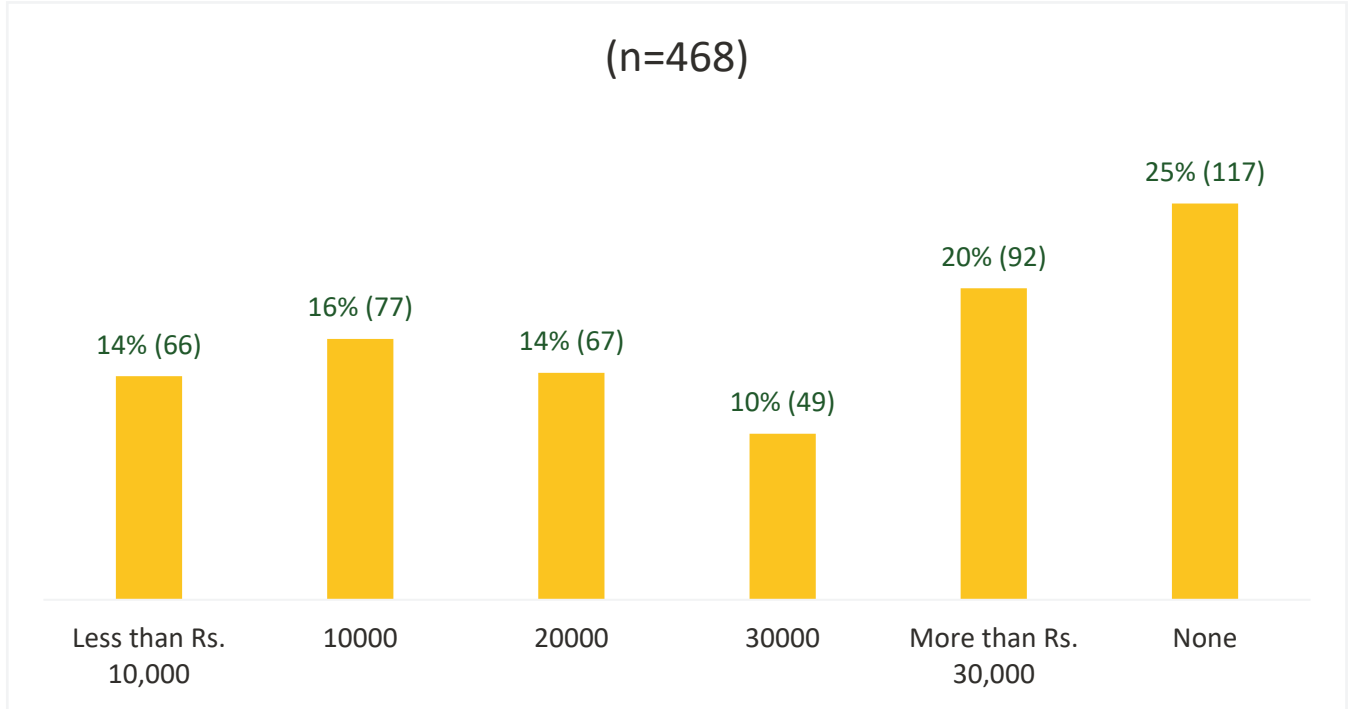
About 71% of respondents reported a willingness to pay (WTP) to buy Islamabad registered vehicles or to get their vehicles registered in Islamabad. 19% are willing to pay more than PKR 30,000 (Figure 11).



As expected, there is correlation between the respondents' who cited 'high resale value' as the main reason for preferring Islamabad-registered vehicles and the premium they are will-

ing to pay for such vehicles. 30% of the 468 respondents (141) citing this as the main reason are willing to pay PKR 30,000 or more for Islamabad registration. (Figure 12).

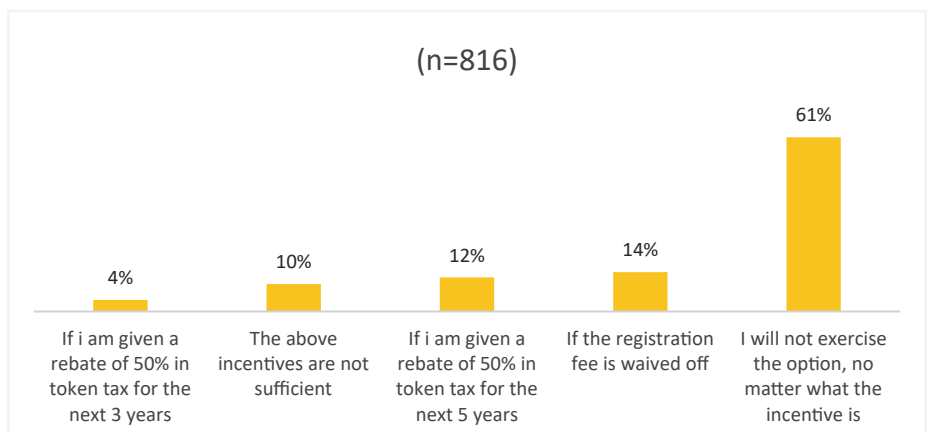
Figure 12. Correlation between High resale value as the main reason and the WTP



The preference for Islamabad-registered vehicles runs deep. About 61% of respondents are not willing to accept any incentive for transferring their registrations to Khyber Pakhtunkhwa. 14% of the respondents consider waiver of registration fee to be an acceptable incentive. Another 12% of the respondents are willing to forego Islamabad registrations if they are given a 50% rebate in token tax for five years while only 4% of respon-

dents are willing to accept a rebate of 50% in token tax for three years as an incentive for transferring their registrations. 10% said none of the incentives presented were sufficient for them to transfer registration to Khyber Pakhtunkhwa (Figure 13).

Figure 13. Respondents' willingness to accept for retransfer of vehicle registrations to KP



Key Takeaways

- A substantial proportion of motor vehicle owners who reside in Khyber Pakhtunkhwa have out-of-province vehicle registrations, predominantly Islamabad.
- There is greater tendency for vehicles with higher engine sizes to have Islamabad registrations and vice versa.
- High re-sale value is the main reason for preference for registering vehicles in Islamabad.
- Vehicle owners residing in Khyber Pakhtunkhwa are willing to pay a premium as high as PKR 30,000 or more for an Islamabad-registered vehicle.
- Many motor vehicle owners are not willing to accept any incentive for transferring their registrations to Khyber Pakhtunkhwa.

3. Realizing motor vehicle tax potential in Khyber Pakhtunkhwa: Options for reform



The Government of Khyber Pakhtunkhwa may adopt the user charge based on motor fuels and retain the annual tax (at a reduced rate). The former would be a charge for road use, while the latter would be a privilege tax (license) for operating a motor vehicle in the province.

3.1 Parametric Reforms

1 Changing proof of residency requirements for motor registration in Islamabad:

Registering a vehicle in Islamabad has certain residency requirements. Acceptable proofs of address include utility bills, CNIC, lease agreement, registry, allotment letter of house/plot/shop, office card/appointment letter (in case of Government servants) or rental agreement.¹⁵

Rental agreements are the least formal form of documentary evidence and, hence, more susceptible to misuse. A clear link between actual occupancy and supporting evidence – utility bills, allotment letter, and registry or rental agreements – can better be established if at least the temporary residence status in CNIC confirms this. According to the National Database and Registration Authority (NADRA), an applicant can change his/her temporary address on the basis of the address on utility bill, property document, verified domicile certificate and affidavit/rent deed from the house owner.¹⁶ Thus, addresses as listed on CNICs are the most credible proof of residency.

The Government of Khyber Pakhtunkhwa may engage with Islamabad Capital Territory (ICT) and the Excise Department Islamabad to change proof of residency requirements for registration of motor vehicles. However, the Excise Department Islamabad does not have incentive to do so as current requirements and practices guarantee a permanent revenue stream for them at zero cost.

¹⁵ <http://www.islamabadexcise.gov.pk>

¹⁶ <https://www.nadra.gov.pk/identity-requirements/>

2 Adopting universal registration plates:

In the short run, a properly designed and implemented universal number plates system can remove inter-district disparity in the market value of vehicles. Adding value to the registration plates can influence new vehicle owners' choice of registration. A centralized and integrated database of vehicle registrations is a pre-requisite for implementing a universal registration system. At present, data for different districts is not properly integrated in the vehicle registrations database.

An aggressive communication campaign will be crucial for successful adoption of new registration plates with enhanced security features.

Towards universal registration plates – Punjab's experience

In 2015 Punjab moved towards universal number plates under similar imperatives that exist in Khyber Pakhtunkhwa today. Almost 50% of vehicles were being registered in Lahore, due to lower market values of vehicles registered in other cities, especially remote districts and more instances of LEAs pulling over cars registered elsewhere. Moreover, it was administratively costly to register a vehicle in a remote district compared to Lahore, with a vehicle in Lahore costing the Excise Department about PKR 6 as compared to PKR 30 in a remote district like Rajanpur.

With the adoption of universal registration plates in Punjab, in 2020 vehicle registrations in Lahore have decreased by 9% and smaller districts have been able to recapture their share of registrations.

There are lessons for Khyber Pakhtunkhwa:

- Unlike in Punjab, where registration documents are maintained at the district level, Khyber Pakhtunkhwa may keep this feature centralized in the provincial headquarter. This way the buyer will not know what district the registration file pertains to limiting the extra premium that accrues to central districts compared with remote districts.
- Khyber Pakhtunkhwa may adopt a better inventory management system; rather than dispatching the registration plates to the district excise office, the registration plates can be dispatched directly to the owner through courier. This will address the problem of weak controls in remote districts.

Director, Excise & Taxation Department,
Government of Punjab

3.2 Structural Reforms

A more far-reaching comprehensive reform would be the adoption of a provincial motor fuel tax.¹⁷ While the token tax is meant to be a user charge for road use, it does not reflect the amount of road use. A tax on motor fuel would better serve this objective and would mobilize significant revenues. A general outline of the motor fuel tax is given below:¹⁸

- The tax would be levied on an ad valorem basis with the rate set at the discretion of the province. The target can be set to equal the provincial and districts roads Operation and Maintenance (O&M) expenditure and the current capital expenditure on roads. This means that fuel prices would vary from province to province.
- The tax rate could vary by type of fuel, at the discretion of the provincial government.
- The tax would be collected by the Oil Marketing Companies (OMCs) based on fuel sold in the province. The federal government would then transfer the revenues to the provincial treasury. Alternatively, the provincial governments may collect the tax from OMC depots.

As may be seen from the calculations presented in Annex-C, revenues actually raised from MVTs in 2019-20 could be covered by a specific tax rate of PKR 0.61 per litre of diesel and PKR 0.52 per litre of motor fuel. The necessary ad valorem rate would have been 0.54%.

Adoption of fuel tax may not be straightforward. Foreseeable challenges and possible responses include:

¹⁷ Currently, an Infrastructure Development Cess (IDC) is collected on goods imported to or exported from the province. The motor fuel tax or by whatever name it is called will have to replace the IDC.

¹⁸ Roy Bahl & Sally Wallace & Musharraf Cyan, 2008. "Pakistan: Provincial Government Taxation," International Center for Public Policy Working Paper Series, at AYSPS, GSU paper0807, International Center for Public Policy, Andrew Young School of Policy Studies, Georgia State University.

- **The federal government is committed to a uniform national price for motor fuels. This proposal would lead to variable prices if provinces chose different tax rates.** In actuality, the proposed fuel tax is a user charge for provincial services. Since the cost and quality of provincial road services varies across provinces, differences in the fuel tax rate are justified.
- **Commercial vehicles (e.g., trucks) may buy gas in one province but use roads in another, thereby, undermining justification for a provincial motor fuel tax.** To some extent this will happen, and it will be important to narrow inter-provincial differences in motor fuel tax differentials.

The Government of Khyber Pakhtunkhwa may adopt the user charge based on motor fuels and retain the annual tax (at a reduced rate). The former would be a charge for road use, while the latter would be a privilege tax (license) for operating a motor vehicle in the province.

The table below recaps suggested options for parametric and structural reforms to realize MVT potential in the province. The table also indicates the feasibility of each option and comments on both the efficacy and ease of implementation of these.

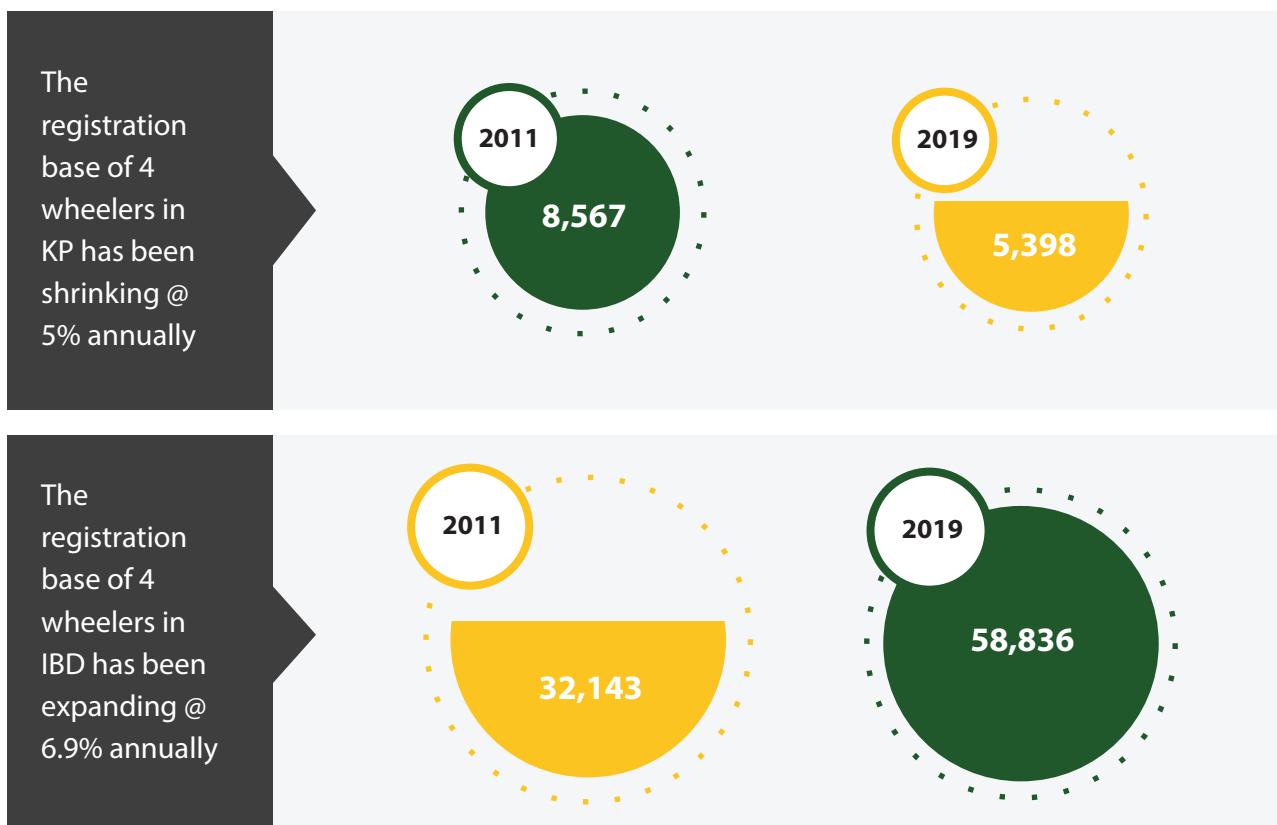
Table 3. Summary of reforms and their feasibility

Parametric Reforms		Efficacy (in controlling revenue leakage)	Ease of implementation
1.	More stringent residency requirements adopted by Excise Office Islamabad	High	Low
2.	Revamping of registration plates	Low to Moderate	High
Structural Reforms			
1.	Levyng a motor fuel tax/infrastructure cess	High	Low

Key facts



- On average, 42,303 motor cars are being registered annually in Islamabad as compared to 1,689 motor cars in Khyber Pakhtunkhwa (based on data on private and commercial vehicle registrations from 2011 to 2019).
- Government owned vehicles constitute a substantial portion of total registrations in Khyber Pakhtunkhwa. Out of a total of 923 motor cars registered in the province in the year 2019, 43% (393) were government owned.
- Registrations of 4- wheeler commercial and private vehicles have been shrinking at annual rate of 5% in Khyber Pakhtunkhwa; for Islamabad, this has been increasing at annual growth rate of 6.9%
- Based on registrations data from 2011 to 2019, every 1000 households in Khyber Pakhtunkhwa possess only 5 cars while every 1000 households in Islamabad possess 7,665 motor cars.
- Survey results show that about 73% of the KP residents who owned vehicles had out-of-KP registrations
- About 57% of the respondents cited high resale value of Islamabad-registered vehicles as the top reasons for opting for these.
- 61% of the respondents are not willing to accept any incentive for transferring back their registrations to Khyber Pakhtunkhwa



Annex-A Motor Vehicle Registrations in Khyber Pakhtunkhwa and Islamabad

Table A1. Total registrations of private and commercial vehicles, by category in Khyber Pakhtunkhwa (2011-2019)

Year	2-Wheeler	3-Wheeler	Motor Car	Pickup	Van	Bus	Truck	Tractor	Jeep	TOTAL
2011	69,031	3365	1471	3294	701	25	1339	1506	231	80,963
2012	64438	1438	1318	3212	621	21	793	1387	159	73,387
2013	82475	3614	5926	4621	1638	171	1121	1104	407	101,077
2014	97340	2800	2189	3054	917	65	1078	816	199	108,458
2015	97316	4584	1017	2845	765	43	852	892	208	108,522
2016	124568	10434	1234	3130	745	63	843	738	195	141,950
2017	90082	3052	977	2539	492	60	1143	734	136	99,215
2018	91333	5542	540	1919	342	51	1359	663	153	101,902
2019	104750	5902	530	2750	321	119	893	550	235	116,050
Total	821,333	40,731	15,202	27,364	6,542	618	9,421	8,390	1,923	931,524
Annual growth rate	4.7%	6.4%	-10.7%	-2.0%	-8.3%	18.9%	-4.4%	-10.6%	0.2%	

Table A2. Total registrations of Government vehicles, by category in Khyber Pakhtunkhwa (2011-2019)

Year	2-Wheeler	3-Wheeler	Motor Car	Pickup	Van	Bus	Truck	Tractor	Jeep	Total
2011	297	0	184	463	63	29	40	27	34	1,137
2012	175	0	274	340	100	51	80	14	36	1,070
2013	463	0	258	138	64	28	47	169	28	1,195
2014	695	0	230	398	73	43	55	18	22	1,534
2015	520	0	445	225	117	16	83	29	84	1,519
2016	204	0	263	209	119	24	27	14	10	870
2017	276	0	304	112	61	21	47	22	32	875
2018	614	0	313	358	92	20	45	26	45	1,513
2019	821	0	393	382	116	33	42	38	28	1,853
Total	4,065	0	2,664	2,625	805	265	466	357	319	11,566

Note: The data is on calendar year basis.

Table A3. . Category wise registrations of private and commercial vehicles in Islamabad

Year	Bus	Van	Jeep	Truck	Wagon	Pickup	Tractor	Minibus	Ambulance	Motor Car	Sports Car	Motor Cycle	Scooter	Total
2011	9	2515	900	37	64	2110	24	5	21	26458	0	16564	1	48708
2012	3	3076	731	31	50	2373	22	1	21	39181	0	23361	6	68856
2013	7	3441	1511	20	96	2448	13	3	42	40255	0	29511	2	77349
2014	4	4014	1325	20	84	2353	23	1	21	32839	0	26043	1	66728
2015	14	4128	1569	19	51	1739	22	2	15	37478	1	21848	0	66886
2016	5	4798	2158	17	22	1683	8	6	13	39982	0	20285	0	68977
2017	7	5677	5150	8	61	2203	4	4	18	54421	0	22275	0	89828
2018	12	6292	7800	6	71	2542	5	0	24	63346	0	22328	0	102426
2019	5	4567	5230	5	43	2118	4	3	20	46840	1	22042	2	80880
Total	55	38508	26374	66	182	7577	125	21	162	380724	2	204257	12	658065
Annual growth rate	-6.3%	6.9%	21.6%	-19.9%	-4.3%	0.0%	-18.1%	-5.5%	-0.5%	6.6%		3.2%	8.0%	5.8%

Table A4. . Category wise registrations of Government vehicles in Islamabad

Year	Government Vehicles														Total
	Bus	Van	Jeep	Truck	Wagon	Pickup	Tanker	Tractor	Mini Bus	Ambulance	Motor Car	Fork Lifter	Motor Cycle	Agriculture Tractor	
2011	22	82	19	17	14	211	1	5	2	6	276		181		836
2012	16	78	13	15	26	202	1	28	2	5	309		202		897
2013	13	62	28	32	40	155	1	7	2	2	382		270		994
2014	10	105	31	22	38	208	2	6	8	6	283	1	126		846
2015	13	64	26	32	17	152	1	14	4	4	477	1	489	1	1295
2016	17	81	44	24	24	288	1	2	7	3	691		783		1965
2017	63	109	115	24	37	207	2	6	11	21	1280		876		2751
2018	22	79	68	38	23	345	3	10	4	3	609		444		1648
2019	19	120	55	24	23	241	1	3	29	20	485	2	370		1392
Total	195	780	399	228	242	2009	13	81	69	70	4792	4	3741	1	12624

Note: The data is on calendar year basis.

Source: Excise Department, Islamabad

Annex-B Structure of taxation in Khyber Pakhtunkhwa and Islamabad

Table B1. . Structure of Registration Fee in Khyber Pakhtunkhwa and Islamabad

Registration Fee						
Peshawar			Islamabad			
S#	Category of Motor Vehicles	Rate of Registration Fee	S #	Vehicle Category	Engine Capacity (cc)	Value of vehicle
1	Motor Cycle/ Scooters	1% of the value of the vehicle.				
2	M/Cars, Jeeps, Vans, Double Cabin/ Single Cabin Pickups, etc. upto 1300 cc Engine Power	1% of the value of the vehicle.	1	Private / Government	999 & Below	1%
3	M/Cars, Jeeps, Vans, Double Cabin/ Single Cabin Pickups, etc. from 1300 cc to 2500 Engine Power	2% of the value of the vehicle.	2	Private / Government	From 1000 to 1999	2%
4	M/Cars, Jeeps, Vans, Double Cabin/ Single Cabin Pickups, etc. of above 2500 cc	4% of the value of the vehicle.	3	Private / Government	2000 cc and Above	4%
5	Trucks/ Busses and commercially used Vans, Single Cabin Pickups, Motor Cab Rickshaws and Motor Propelled Tricycles, etc.	1% of the value of the vehicle.	4	Commercial	999 cc and Below	1%
6	Tractors	Rs.1000/-	5	Commercial	1000 cc and Above	2%

Table B2. . Structure of Advance Income Tax in Khyber Pakhtunkhwa and Islamabad

Advance Income Tax						
Peshawar				Islamabad		
	Engine Capacity (cc)	Filer	Non-filer	Engine Capacity (cc)	Filer (In Rs.)	Non-Filer (In Rs.)
1	Upto 850cc	Rs. 7,500	Rs. 15,000	Upto 850 cc	7,500	15,000
2	851cc to 1000cc	Rs. 15,000	Rs. 30,000	851cc to 1000cc	15,000	30,000
3	1001cc to 1300cc	Rs. 25,000	Rs. 50,000	1001cc to 1300cc	25,000	50,000
4	1301cc to 1600cc	Rs. 50,000	Rs. 100,000	1301cc to 1600cc	50,000	100,000
5	1601cc to 1800cc	Rs. 75,000	Rs. 150,000	1601cc to 1800cc	75,000	150,000
6	1801cc to 2000cc	Rs. 100,000	Rs. 200,000	1801cc to 2000cc	100,000	200,000
7	2001cc to 2500cc	Rs. 150,000	Rs. 300,000	2001cc to 2500cc	150,000	300,000
8	2501cc to 3000cc	Rs. 200,000	Rs. 400,000	2501cc to 3000cc	200,000	400,000
9	Above 3000cc	Rs. 250,000		Above 3000cc	250,000	500,000

Table B3. . Comparison of Token Tax in Islamabad and Khyber Pakhtunkhwa

Token Tax				
			Islamabad	Peshawar
	Vehicles Categories	Engine Capacity (cc)/Seats	Amount (in Rs.)	Amount (in Rs.)
MOTORCYCLE AND SCOOTER (Two/Three Wheeler Vehicles)				
1	Motorcycle/Scooter	Upto 200	1,000 (Lifetime)	1,500 (Lifetime)
2		201 to 400	2,000 (Lifetime)	
3		401 & Above	5,000 (Lifetime)	
FOUR WHEELER VEHICLES				
4	Private / Government	Upto 1000	10,000 (Lifetime)	10,000 (Lifetime)
5		From 1001 to 1300	1500	1500
		From 1301 to 1500	4000	2250
6		From 1501 to 2000	5000	3500
7		From 2001 to 2500	8000	3500
8		From 2501 & Above	12000	6500
COMMERCIAL VEHICLES				
9	Motor Cab having upto 6 Seats	Upto 1000	600	750 (seating capacity upto 4 persons)
10		From 1001 & Above	1000	800 (seating capacity 4 to 6 persons)
11	Public Service Vehicles	From 8 Seats to 12 Seats	200 Per Seat	1) More than 6 persons, plying on A routes; Rs 225 per seat
12		From 13 Seats to 14 Seats	250 Per Seat	2) Motor vehicles with seating capacity of more than 6 but not more than 20 persons, plying exclusively within the limits of Corporation/Municipality or Cantonment; Rs 200 per seat
13		From 15 Seats to 16 Seats	300 Per Seat	
14		From 17 Seats to 41 Seats	300 Per Seat	
15		From 42 Seats to 51 Seats	400 Per Seat	
16		From 52 & Above	500 Per Seat	3) motor vehicles with seating capacity of more than 6 but not more than 20 persons plying exclusively within the limits of Corporation, Municipality or Cantonment or partly within and partly outside such limits with sixty per cent of the total length of the

				route falling within the limits of a Corporation, Municipality or Cantonment; Rs 150 per seat
17	Loading Vehicles / Goods Vehicles	Laden weight not exceeding 1250 kg	500	625
18		Laden weight exceeding 1250 kg but not exceeding 2030 kg	800	1000
19		Laden weight exceeding 2030 kg but not exceeding 4060 kg	2000	1025
20		Laden weight exceeding 4060 kg but not exceeding 6090 kg	3000	2200
21		Laden weight exceeding 6090 kg but not exceeding 8120 kg	3500	2500
22		Laden weight exceeding 8120 kg	4000	5000

Note: The comparison juxtaposes Khyber Pakhtunkhwa's token tax structure with Islamabad token tax regime

Annex-C Advalorem fuel tax equivalent

Table C1. . Advalorem rate and specific tax rates for motor fuels

Revenue Target= Rs. 981.946 Million							
	Tonnes 2018-19	Forecast 2019-20 ^c	Conversion factors ^d	Million Litres	Avg price/litre ^e	Advalorem base (Million Rs.)	
Total consumption in transport ^a	1356689						
HSD ^b	616792	659351	1159	764.87	113.64	86844.45	
MS	699648	699648	1418	992.10	97.32	96547.06	
Total				1756.29		183391.52	
						Advalorem rate	0.54%
						Specific rate	
						HSD (Rs/L)	0.61
						MS (Rs/L)	0.52

Note: ^a Data of total consumption of POL products in transport sector is from Pakistan Energy Yearbook 2019 (Table 2.10)

^b Share of HSD and MS has been calculated on the basis of the respective share of the two fuel types in total consumption of POL products. This share is 45% and 52% respectively (Table 2.9 Pakistan Energy Yearbook 2019)

^c Forecast for 2019-20 is based on average compound growth rate of 6.9% (Table 2.8 of Pakistan Energy Yearbook 2019)

^d Conversion factor used by oil industry, valid at 86 Fahrenheit or 30 Centigrade. 1 metric ton of diesel equals 1159 liters and 1 metric ton of regular motor fuel is 1418 liters at 86°F (30°C);

from <<https://miskolc.jimdofree.com/oil-world-markets/oil-industry-conversion/>>

^e The price is the average of fortnightly notified price during the year 2018-19 (Pakistan Energy Yearbook 2019)

Annex-D List of Stakeholders consulted

S. NO	NAME	DESIGNATION
1	Mr. S. Ghazi Ghazan Jamal	Special Assistant to Chief Minister, Khyber Pakhtunkhwa on Excise, Taxation and Narcotics Control
2.	Mr. Islam Zaib	Secretary, ET&NCD, Government of Khyber Pakhtunkhwa
3.	Mr. Syed Fayyaz Ali Shah	(Ex) Director General, Directorate General of Excise & Taxation
4.	Mr. Muhammad Hamza Shafqaat	Director General Excise and Taxation Department Islamabad
5.	Mr. Bilal Azam	Director Excise and Taxation Department Islamabad

