

# Request for Proposal

---

## Applied Research on Tax potential and Taxation Mechanism of Digital Economy in Khyber Pakhtunkhwa

### 1. SNG II overview

Sub National Governance (SNG) II Programme is a technical assistance (TA) programme, funded by FCDO and implemented by Oxford Policy Management (OPM). This four-year programme started in September 2019. SNG provides TA to the provincial governments of Khyber Pakhtunkhwa (KP) and Punjab, as well as local governments in 18 districts, contributing to the consolidation of democracy, economic growth, and the reduction of poverty in Pakistan. To achieve these objectives SNG supports governance and institutional reforms for improved basic services, including to poor and vulnerable groups through Enabling institutional reform and evidence-based planning; improving budget transparency and execution; increasing fiscal space and Supporting innovative approaches to improved governance.

SNG-II's Output 4 conducts applied research studies to inform policy. Applied research is used to support counterpart departments' initiatives of reforms in PFM, Fiscal Space, Planning and Governance. The demand for such support comes from the relevant Reforms Working Groups (RWGs) of the counterpart departments and is taken to Provincial Steering Committee (PSC) for final decision. The RWG at Khyber Pakhtunkhwa Revenue Authority has requested for applied research support to explore the landscape of e-commerce and digital economy in Khyber Pakhtunkhwa and suggest ways for bringing such businesses in the tax net. SNG II is seeking technical and financial proposals from entities have relevant expertise to undertake this research activity.

### 2. Task Background & Problem Statement

#### 2.1 Background

The digital economy—businesses based on computing and IT—is developing rapidly worldwide. It is the single most important driver of innovation, competitiveness and growth, and it holds huge potential for entrepreneurs and small and medium-sized enterprises. Online communication platforms over the internet are pushing the boundaries of the economy across the globe. The opening up of virtual marketplaces both for businesses and customers, ease of transaction and lower cost of operations has made e-commerce an alternate business model for many large, medium and small-scale businesses.

In Pakistan businesses in the digital economy sector contribute 1% of the GDP (USD 3.5b), expected to double in 2-4 years' time. During the COVID 19 crises IT-based businesses, especially the online sales and delivery services, grew tremendously. The ever-evolving nature and the complexity of these businesses have posed a considerable challenge for the taxation authorities both at the federal as well as the provincial level.

Facebook, Google, YouTube, Twitter, Foodpanda, Pakwheels, Daraz.com, Careem are examples of business that provide paid online services of varying nature, however, the PRAs and FBR have neither any existing capacity and knowhow to understand the unique and complex business models of these businesses nor they been so far able to develop rules and mechanisms for taxing such services.

Given the non-traditional nature of transactions on these digital platforms the taxation authorities face a challenge to identify such transactions in order to bring them into the tax net. Furthermore, since the taxation authorities (PRAs and FBR) are used to dealing with the traditional mode of business, they

have limited or no capacity to fully grasp the complexity of the business models involved in IT-based businesses. This ultimately leads to a huge amount of tax avoidance by these businesses.

The Khyber Pakhtunkhwa Revenue Authority, an entity with the mandate to levy tax on services rendered in KP, has requested SNG to assist them in conducting an applied research to determine the true potential of the digital economy in KP and with developing appropriate mechanisms to reap the full benefit of tax collection from this emerging business sector.

This activity is seen by KPRA as a step towards identifying businesses for bringing them into the tax net. The research will also suggest mechanisms for appropriate taxation of these complex nature businesses.

### **3. Objectives/Expected Outcomes of the study**

The growing volume of e-commerce and digital economy is an opportunity as well as a challenge for KPRA. The revenue potential from online businesses is an opportunity to expand the tax net and increase revenue collection. However, the challenge is that such businesses are hard to identify given the nature of their transactions. The objectives of this applied research are:

-To help KPRA understand scope and size of the digital economy in KP

-To recommend strategies/mechanisms for appropriate taxation of the businesses involved in the digital economy. (It is important that proposed recommendations must be realistic, time bound, and practicable in the given political economy and broader legal and institutional framework in KP and Pakistan).

### **4. Activities**

The research will have the following key activities:

- 1) Desk review on the global practices of identifying and taxing e-commerce and digital economy businesses.
- 2) Review of mechanisms and approaches of taxing e-commerce and digital economy in other countries
- 3) Conducting key informant interviews, focus group discussion and round table discussions with representations from key stakeholders (e.g., PASHA, E-commerce companies, Department of IT, KPITB, Ministry of Commerce, FBR and others)
- 4) Compile a detailed report based on the inputs from desk review and primary data along with recommendations for a) identification of e-commerce/digital economy businesses and b) taxation mechanism of these businesses.
- 5) Present the report to KPRA for feedback.
- 6) Submission of the final report.

### **5. Expected deliverables of the project**

The firm/organisation selected is expected to submit a report which contains the following;

- Evidence based estimation of the scale of the digital economy in KP
- Pinpoint/identify areas/reasons of the e-businesses getting away from paying the right value of taxation
- A mechanism which is practical and implementable in bringing all the digital economy under the taxation ambit
- Risk/challenges in the implementation of the mechanism and its mitigation

## 6. Timeframe

The project is expected to be completed in four months from the date of signing of the contract.

## 7. Proposal

Firms have to submit a detailed technical as well as financial proposal for carrying out the project, based on the following;

### 7.1 Technical Proposal

The technical proposal to be submitted should have the following:

- **Technical approach and Methodology:** A clear understanding of the objectives of the assignment is to be provided along with the detailed approach with which the project is to be carried out. This includes step-wise methodology of completing the assignment. This will also include the anticipated risks and challenges and the approach to tackle them.
- A tentative but clear and comprehensive **workplan** is to be provided showing all the major tasks to be done along with milestones and timeframe. The idea is to provide a workplan which supplements the technical approach & methodology, and which is also practical and implementable.
- **Evidence of experience and expertise** of conducting similar/related research.
- A critical part of the proposal is the proposed team of **Key Experts** to undertake this research. The proposal shall explain as who are the proposed Key Experts to undertake this research and what is their relevant expertise and past experience of similar research. Please submit CVs of the key experts.
- Firms will also provide in the technical proposal the **total human resource** to be used in the assignment.

### 7.2 Financial Proposal

The financial proposal will be comprised of the following:

- a. Price proposal for conducting the project.
- b. Detailed breakdown of all the headings including the payments to the human resource and other equipment costs.
- c. Proposed milestone payment plan.
- d. Registration status for Sales Tax should be mentioned in the financial proposal. If the organisation is registered for sales tax charging, the proposal should include amount inclusive and exclusive of GST.

A sample template for developing a financial proposal is provided in Annexure A.

## 8. Other Terms and Conditions:

- All costs shall be provided in PKR
- The financial proposal will Include all costs (including logistics, HR, etc) in the budget.
- SNG-II will deduct Withholding tax and Sales Tax as per the existing laws.
- Evaluation of proposals will be carried out in accordance with the guidelines of SNG-Innovation Challenge Fund & Action Research (ICF&AR) operations manual. Selection will be carried out by the Reform Working Group of the KPRA; headed by a senior official of the KPRA. The selection decision will be final and cannot be challenged.
- For registered bidders, NTN should be mentioned on the financial proposal.

## 9. Evaluation Criteria:

The following criteria will be used for evaluating the proposals:

Section of the proposal	Marks
Technical Approach and Methodology	40
Key Experts (profile and relevance)	30
Workplan	10
Budget	20
<b>Total Marks</b>	<b>100</b>

## 10. Organisational Eligibility:

The following criteria must be met (verified through submission of evidence/documentation) in order for a firm's proposal to be considered eligible:

- Currently legally registered to operate in Pakistan in compliance with relevant business licensing, taxation, audited accounts, employee and other relevant regulations;
- Registered with Federal/Provincial Tax Authorities, with current active status;
- Maintains formal accounting records with a bank account in the name of the organisation;
- Bank statements and audited reports of the last three years;
- Not blacklisted by any Federal/Provincial government, FCDO or OPM;
- Not involved in any litigation and if so, details to be provided on a signed stamp paper;
- Not bankrupt or involved in any litigation related to bankruptcy.

