

Enhancing Tax Dispute Resolution: A Proposal for Amendments to the Income Tax Ordinance 2001 for Strengthening Alternative Dispute Resolution Mechanisms

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Corresponding Author: Sawera Areej (Advocate, District Bar Association, Dera Ismail Khan, KP, Pakistan. Email: saweraareej83@gmail.com)

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Abstract: *This research paper proposes for amending the Income Tax Ordinance 2001 to enhance the effectiveness and efficiency of Alternative Dispute Resolution (ADR) mechanisms in resolving tax disputes in Pakistan. The proposal addresses challenges faced in the current ADR framework, particularly related to the accreditation of retired judges and delays in the nomination process. Key recommendations include recognizing established ADR centers as authorized entities for nominating retired judges and specifying the role of retired High Court judges in chairing ADR committees. Proposed amendments to Section 134A of the Income Tax Ordinance 2001 are outlined, along with the benefits and justifications for these amendments. The paper concludes with a call for swift implementation of the proposed amendments to improve taxpayer confidence and strengthen the integrity of the tax administration system.*

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Harassment, Empowering Women, ADR

Authors:

Sawera Areej:

Advocate, District Bar Association, Dera Ismail Khan, KP, Pakistan.

Email: saweraareej83@gmail.com

Javed Iqbal: LLB. MA Political Science, MA Islamyat, MA English, M Phil Political Science, Diploma in Sharia and Law.

Introduction

In navigating the complex terrain of taxation, efficient dispute resolution mechanisms stand as the cornerstone of a fair and effective tax administration system. The ability to swiftly address tax disputes not only fosters taxpayer confidence but also upholds the integrity of the tax regime. Recognizing the critical role of dispute resolution, this proposal advocates for amendments to the Income Tax Ordinance 2001 aimed at enhancing the Alternative Dispute Resolution (ADR) mechanism. The introduction of the Finance Act, 2023, marked a significant milestone in the evolution of tax dispute resolution in Pakistan. Through this legislation, provisions for ADR were introduced, signaling a shift towards a more collaborative and expedient approach to resolving tax disputes. However, as the implementation of these provisions unfolded, challenges and inefficiencies emerged, hindering the smooth functioning of the ADR mechanism.

This proposal seeks to address these challenges head-on by presenting a comprehensive set of amendments designed to streamline the ADR process, promote transparency, and ensure fairness in resolving tax disputes. Through a meticulous analysis of existing provisions and consultation with stakeholders, we have identified key areas where targeted amendments could significantly enhance the effectiveness and efficiency of the ADR mechanism. By delving into the intricacies of the ADR framework and proposing concrete solutions, this research endeavors to contribute to the ongoing dialogue on tax reform and administration in Pakistan. Through collaborative efforts and a commitment to continuous improvement, we aim to cultivate a tax regime that not only meets the needs of taxpayers but also fosters

trust, compliance, and economic prosperity. In the following sections, we will explore the challenges inherent in the current framework of alternative dispute resolution, summarize our proposed amendments, and provide a rationale for their implementation. Through a thorough examination of these issues and recommendations, we hope to lay the foundation for a more robust and responsive tax dispute resolution system in Pakistan.

Challenges in the Current Framework of Alternative Dispute Resolution

Despite the laudable intentions behind the introduction of the Alternative Dispute Resolution (ADR) mechanism in the Income Tax Ordinance 2001, several challenges have emerged that hinder its effectiveness and efficiency. These challenges, if left unaddressed, undermine the objectives of the ADR process and impede its ability to serve as a viable alternative to traditional litigation.

Accreditation Barriers for Retired Judges

A significant obstacle in the current framework of ADR is the requirement for retired judges to secure formal accreditation as mediators.¹ This accreditation process, mandated by the Ministry of Law, poses a barrier to the involvement of retired judges in the ADR process. The cumbersome nature of this accreditation requirement limits the pool of qualified candidates available to chair ADR committees, thereby constraining the effective functioning of the mechanism.

Delay in Nomination of Retired Judges

Section 134A of the Income Tax Ordinance mandates the appointment of a committee for ADR to resolve tax disputes. However, challenges have arisen due to delays in the nomination of retired judges by the Law and Justice Division. Despite the clear mandate outlined in Section 134A of the Income Tax Ordinance, 2001 for the appointment of a committee for Alternative Dispute Resolution (ADR), challenges have arisen due to delays in the nomination of retired judges by the Law and Justice Division. Such challenges are evident in the series of letters forwarded to the Law and Justice Division (MoLaw), requesting the nomination of a panel of retired judges for ADR committees under Sub-Section 3 of Section 134A. Despite repeated reminders and urgent requests, in the form the letters dated August 29th, 2023,² October 16th, 2023,³ and December 6th, 2023,⁴ a response from the concerned authorities is still awaited. This delay in nominating a panel of retired judges has significantly impacted the ability of the Federal Board of Revenue (FBR) to constitute ADR committees. The inability to promptly nominate retired judges for ADR committees poses a significant challenge to the timely and efficient resolution of tax disputes. Therefore, addressing these challenges and expediting the nomination process for retired judges is imperative to ensure the smooth functioning of the ADR mechanism and uphold the principles of fairness and transparency in resolving tax disputes.

This delay in nominating a panel of retired judges has significantly impacted the Federal Board of Revenue's (FBR) ability to constitute ADR committees, thereby hindering the timely and efficient resolution of tax disputes.

Limited Pool of Qualified Mediators

The current framework of ADR relies heavily on the availability of qualified mediators to chair ADR committees and facilitate the resolution of tax disputes. However, the stringent accreditation requirements and delays in nominations have contributed to a scarcity of available judges primed to serve the purpose of

¹ The Income Tax Ordinance, S. 134A(3)(i)

² C.No.8(1)S(IR-Operations)/2023/1132360-R

³ c.No.8(I)S(IR-operations/2023/

⁴ C.No.8(1)S(IR-Operations)/2023/183628-R

Section 134A. This limited pool of qualified mediators exacerbates delays in the resolution process and undermines the credibility of the ADR mechanism.

Lack of Standardization and Oversight

Another challenge in the current framework of ADR is the lack of standardization and oversight in the selection and functioning of ADR committees. The absence of clear guidelines and criteria for the appointment of mediators, coupled with inconsistent practices across different committees, undermines the transparency and fairness of the process. Without robust oversight mechanisms in place, there is a risk of potential biases and procedural irregularities, undermining the legitimacy of the ADR mechanism.

In light of these challenges, it is imperative to undertake targeted amendments to the Income Tax Ordinance to address the systemic barriers and inefficiencies hindering the effective functioning of the ADR mechanism. Through thoughtful reforms and strategic interventions, the ADR process can be revitalized to better serve the interests of taxpayers and uphold the principles of fairness and transparency in resolving tax disputes.

Way Forward

Recognition of ADR Centers

The proposed amendments advocate for formally recognizing established ADR centers as authorized entities for nominating retired judges to chair ADR committees. This recognition would involve the Ministry of Law notifying ADR centers that meet specific criteria, including adherence to recognized standards of professionalism, integrity, and expertise in dispute resolution. By acknowledging these centers as key stakeholders in the ADR process, the amendments aim to streamline and standardize the involvement of retired High Court judges in resolving tax disputes.

Enhancing Pool by formalizing selection process

The amendments suggest specifying that ADR committees shall be chaired by retired High Court judges who are affiliated with recognized ADR centers. While these judges may not hold individual accreditation as mediators, they would operate under the accreditation of the ADR center, ensuring adherence to established protocols and standards of practice. This approach not only expands the pool of qualified candidates available to preside over ADR committees but also enhances the credibility and effectiveness of the ADR mechanism.

Amend the Finance Act to formally recognize ADR centers as authorized entities for nominating retired judges to chair ADR committees. This recognition should be contingent upon ADR centers meeting predefined criteria, including demonstrated expertise in dispute resolution, adherence to professional standards, and accreditation by the Ministry of Law. Specify in the amended provisions that ADR committees shall be chaired by retired High Court judges affiliated with recognized ADR centers. These judges, while not individually accredited as mediators, should operate under the accreditation of the ADR center, ensuring consistency, fairness, and adherence to established protocols in resolving tax disputes. These recommendations seek to address the challenges posed by the current framework and enhance the efficiency, transparency, and fairness of the ADR mechanism in resolving tax disputes. By leveraging the expertise and resources of accredited ADR centers and retired High Court judges, these amendments aim to instill confidence in taxpayers, promote compliance with tax laws, and expedite the resolution of disputes, thereby contributing to a more robust and effective tax administration system in Pakistan.

Advantages and Rationale behind Proposed Amendments

Enhanced Access to Qualified Mediators

The proposed amendments provide a solution to the existing bottleneck in the nomination of retired judges as mediators for ADR committees. By formally recognizing ADR centers as authorized entities for

nominating retired judges, the pool of qualified mediators is significantly expanded. This ensures that ADR committees are chaired by individuals with extensive legal expertise and experience in dispute resolution, thereby enhancing the quality and effectiveness of the ADR process. Additionally, by broadening the eligibility criteria to include retired High Court judges affiliated with recognized ADR centers, the amendments ensure that ADR committees benefit from the wisdom and judicial acumen of seasoned professionals.

Streamlined Nomination Process

Currently, bureaucratic delays and administrative hurdles hinder the timely constitution of ADR committees, resulting in prolonged resolution of tax disputes. The proposed amendments address this challenge by streamlining the nomination process for retired judges. By formally recognizing ADR centers as authorized entities for nominating retired judges, the amendments eliminate unnecessary red tape and bureaucratic inefficiencies. This expedited process ensures that ADR committees are constituted promptly, enabling swift resolution of tax disputes and reducing backlog in the tax adjudication system. Moreover, by establishing clear criteria for the accreditation of ADR centers, the amendments enhance transparency and accountability in the selection of retired judges, further streamlining the nomination process.

Standardized Accreditation Criteria

The lack of standardized accreditation criteria for ADR centers has been a longstanding issue, leading to inconsistencies in the selection of retired judges. The proposed amendments address this concern by establishing clear criteria for the accreditation of ADR centers. By adhering to recognized standards of professionalism, integrity, and expertise in the field of taxation, accredited ADR centers ensure the credibility and impartiality of the ADR mechanism. This fosters trust among stakeholders, including taxpayers, tax authorities, and the judiciary, and promotes compliance with tax laws. Moreover, by promoting transparency in the selection of retired judges, the amendments enhance the legitimacy of the ADR process and reinforce public confidence in the tax adjudication system.

Improved Efficiency and Fairness

Timely resolution of tax disputes is essential for promoting efficiency and fairness in the tax administration system. The proposed amendments facilitate expedited resolution of tax disputes through the ADR mechanism, minimizing delays and reducing litigation costs for all parties involved. By leveraging the expertise of retired High Court judges affiliated with recognized ADR centers, the amendments enhance the efficiency and fairness of the ADR process. These judges bring extensive legal knowledge, judicial acumen, and impartiality to the resolution of tax disputes, facilitating informed decision-making and equitable outcomes. Moreover, by promoting the use of ADR as an alternative to traditional litigation, the amendments alleviate the burden on the judiciary and contribute to the overall efficiency of the legal system.

Strengthened Tax Administration System

Effective resolution of tax disputes is essential for maintaining the integrity and credibility of the tax administration system. The proposed amendments contribute to a more robust and effective tax administration system by promoting the resolution of tax disputes through the ADR mechanism. By expediting the resolution of tax disputes, the amendments minimize administrative burden on tax authorities, reduce backlog in the tax adjudication system, and enhance taxpayer confidence. This, in turn, promotes compliance with tax laws, increases revenue collection efforts, and fosters economic growth and prosperity in Pakistan.

Conclusion

The proposed amendments to enhance the operational efficacy of the Alternative Dispute Resolution (ADR) mechanism in Section 134A of the Income Tax Ordinance 2001 represent a significant step towards

improving the resolution of tax disputes in Pakistan. By formally recognizing ADR centers, streamlining the nomination process for retired judges, establishing standardized accreditation criteria, and promoting transparency and accountability in the selection of mediators, these amendments address longstanding challenges and inefficiencies in the ADR mechanism. Moreover, by facilitating expedited resolution of tax disputes, leveraging the expertise of retired High Court judges, and promoting compliance with tax laws, the amendments contribute to a more robust and effective tax administration system in Pakistan.