

**Tax-to-GDP ratio will decrease to 12.5 percent: Pasha**

Former Finance Minister Dr Hafiz Pasha has said that tax to GDP ratio would decrease to 12.5 percent from 13 percent, which is unfortunate for the country that is facing high fiscal deficit. He also regretted that development spending has been slashed by 30 percent which is not appropriate as it would result in low growth, adding the fiscal deficit has been increasing and revenue growth is in single digit. He said that two mini-budgets have been presented by the government with the first one to increase revenue and contain deficit while other one was to boost industrial growth.

"Pakistan's tax to GDP ratio would reduce to 12.5 percent during the ongoing fiscal year due to dismal performance of the Federal Board of Revenue (FBR). The PML-N government had increased the tax to GDP ratio to 13 percent during its five years constitutional tenure from 10 percent," he added.

The FBR's is facing over Rs 300 billion shortfall in tax collection during nine months (July to March) of the current financial year due to reduction in imports and industrial growth, he said.

"Our tax to GDP ratio should be more than 16 percent in accordance with the research and studies," he said. He also criticised the government for slashing the Public Sector Development Programme (PSDP) by over 30 percent to restrict the budget deficit. Pasha also gave budget recommendations for the next fiscal year.

He recommended that the government should improve tax collection in agriculture sector and withdraw a number of withholding taxes, which have gone to 64 in number. The government should impose Capital Gain Tax (GGT) on properties as there is major scope in this sector for revenue generation. He also recommended for taking innovative reforms in the country.

He highlighted that even the DHA was not catering for the housing needs of soldiers, while the bureaucrats monetise benefits for themselves at very low or no tax rates.

Pasha said, "A conservative estimate of additional income or increase in wealth of these groups is almost Rs 2 trillion annually." He added that tax and other revenue foregone are over Rs 400 billion.

"Our estimate that these privileges cost the country Rs 2,000 billion per annum and social sector programme is hardly of Rs 400 billion. Look at all the tax concessions which have been granted. Why are Chinese companies given 23 years income tax exemption? Why is there difference to local companies?" he posed questions.

He said in the elite captured society of Pakistan, one per cent farmers own 22 per cent of the land and 50 per cent small farmers own 11 per cent of the land, which shows the extent of inequality in an agrarian economy. He said that the real test for the incumbent government is to broaden the tax to GDP ratio through direct and progressive taxation. As the tax-to-GDP ratio rises, the standard sales tax rate should be brought back to 15 percent from 17 percent, he suggested.

He urged the government to develop a home grown Medium-term Fiscal Budgetary Framework and debt strategy.

Dr Hafiz Pasha said that water charges in Punjab are Rs 135 per acre which are too low to cover the irrigation cost, which is Rs 3,250 per acres.

Even with high exemption, total agriculture income revenue ought to be Rs 33 billion but currently it is Rs 2 billion. There is need for focusing on development of a national integrated tax system.

He said urban real estate developers and owners also enjoy the benefits of very low taxation including hugely under-assessed values of rents and capital value for determination of tax liabilities. The middle class of Pakistan is shrinking, as per an appropriate definition, from 43 percent of the population in 2001-02 to 38 percent in 2015-16.

Finance Minister Asad Umar speaking on the occasion said political confrontations have negative impacts on the economy and economic decision-making, which should be avoided to build consensus.

However, proceedings of tracking crime and upholding rule of law are not political confrontations, and this must be distinguished. "In the long-run if there is rule of law, justice in the society and supremacy of the constitution, we can help strengthen our economy," he added.

Asad said, "Our economic decision should be backed by sound economic theory and indigenous empirical research, as there is no substitute for grassroots level research." He said it is sad reality that Pakistan is an elite captured society and "we all need to strive for a society and political system where elite influence can be mitigated." He emphasised the need for introducing and implementing wealth tax which has fundamental place in the advance economies.

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