BUSINESS RECORDER
Founded by M.A. Zuberi

05th August, 2019

RECORDER REPORT

A long overdue Recognition

The Federal Board of Revenue (FBR) at long last appears to have admitted that it must share blame for the appallingly low tax to GDP ratio and the abysmally small number of tax filers. In announcing a proposal for a simplified tax scheme for small traders it has conceded that there are four compelling issues that keep the people away from coming under the tax net. These issues are: A complicated tax regime and an equally, if not more, complicated and cumbersome requirement of record keeping, a complicated form for filling out tax returns, personal interaction and personalized jurisdiction that has a high probability of abuse of discretion usually leading to harassment and corruption and; finally the complicated requirements for compliance such as Tax withholding, etc. This newspaper has consistently been pointing out the high cost that businesses have to incur to meet the compliance requirements of the FBR tax regime. A full-time dedicated compliance person or department is required to sift through the maze of different rates of tax withholding based on nature of business/transaction registered or unregistered entity being dealt with as also the requirements with regard to sales tax to be withheld. A small business simply cannot afford to comply with such tedious, complicated and costly requirements for compliance and that too without any compensation in terms of cost incurred. Over seventy percent of the tax collected by FBR is in the shapes of tax withholding or paid in advance. The FBR officialdom monitors compliance whereas businesses function as tax collectors on their behalf. This is certainly not sustainable and is the root cause that keeps taxpayers away from coming in the tax net.

By issuing a simplified tax scheme for small traders and retailers who would no longer be required to operate as withholding agents and thereby will not interact with tax officials thus pre-empting the possibility of abuse of discretion or harassment. They will also not be required to fill or file complicated return forms and wealth statements that would require engaging the services of a qualified accountant that a small trader can ill afford. The FBR has invited proposals for modification of this scheme from stakeholders as well as the general public and, subsequent to review and possible revision of the scheme, the Board would place it before the federal cabinet for final approval.

The scheme envisages registration and filing of returns by all those not already registered by 30 September through electronically filing a simplified return accompanied by evidence of payment of due tax and a simplified wealth statement. An association of persons will be liable to tax separately from the member of the association though the amount received by a member of the association in his/her capacity as member out of the income of the association will be exempt. No action will be taken for non-compliance prior to the approval of the committee that would consist of at least one member of a trade body and not a government employee. In the event of dissatisfaction the matter would be referred to the dispute resolution committee to be formed under the scheme. If dissatisfaction persists then an appeal can be filed under section 127 of the Income Tax Ordinance 2001 after payment of 25 percent of tax payable. It is important for the success of this simplified scheme that it is fully aligned with the Sales Tax law or else its fate would be of a still born. It is also likely that the traders would have reservations on some of these proposals however one would hope that they would defer the strike action that they have already announced and focus on preparing proposals with respect to the simplified scheme.

FBRs simplified scheme would include traders with a turnover of less than 50 million rupees, self invested equity less than 50 million rupees, cost of fixed assets less than 100 million rupees, and number of employees less than 5. However this definition is too narrow and also this scheme should not be confined to traders and retailers only. It should apply to any enterprise that fits the criteria laid down in the scheme. We would urge that FBR consider adopting the State Bank of Pakistan's definition of a Small enterprise that is defined as a business entity which does not employ (including contract employees) more than 50 individuals and has an annual sales turnover of up to 150 million rupees. It is important for luring people from the informal to the formal sector that the FBR to embrace the SBP definition of a Small Enterprise as they are the backbone of our economy. With large scale manufacturing witnessing a negative growth last year it would be advisable to go light on a sector that constitutes approximately 90 percent of all enterprises in the country, employs 80 percent of non-agricultural labor force with a 'huge share in GDP.

As the saying goes 'Better late than never', realization has eventually dawned on FBR that it is not possible to have the same requirements for compliance for all taxpayers irrespective of the size of their business operations as there is cost involved in compliance and the business should be able to afford incurring of the cost. The credit for this admission on the part of FBR must go to its Chairman Shabbar Zaidi and one expects that in due course he would steer FBR to also come up with a tax regime for 'Medium Enterprises" as defined by the State Bank.