

### **Evasion: Black economy breathes through tax loopholes**

LAHORE: Several amnesty schemes floated from time to time by various governments in Pakistan have failed to remove informality from the economy.

The names of those who availed amnesty are kept secret but the ones, who contest election, are sometimes exposed.

This means that we allow those who conceal their income through amnesty to contest elections. Had there been no amnesty they would either have been bracketed among tax evaders or they would have to pay the full tax with penalty for concealment of income.

This has been done in case of Aleema Khan, Prime Minister Imran Khan's sister, who failed to avail the amnesty in time before her property was unearthed.

The incidence of tax evasion in Pakistan is so high that trade and industry opposes even those taxes that are adjustable at the time of the filing of tax returns.

This is because they do not document the entire detail of an economic deal. The indirect taxes were imposed to nab the tax evaders at different stages of economic process.

The 10 percent tax imposed on electricity bills, 0.03 percent on cheques, the income tax deducted on telephone bills, and the withholding tax paid by traders or manufacturers at the import stage are all adjustable when the payer submits the final tax return.

In case of genuine taxpayers this amount is deducted while paying income tax. They have to provide the documentary proof in this regard that is made available to them at the time of deductions.

Surprisingly this scheme has backfired and the tax evaders have tuned up their business model in such a way that these indirect levies are incorporated into the cost of the business.

They charge these government levies from the consumers and continue to remain outside the tax net. This is the reason most of the entrepreneurs do neither file income tax returns nor ask for refunds.

There are many who protest that they do not earn as much from the business as is deducted by the state at different levels.

Tax experts point out that though this possibility may exist but it is not a norm.

The protesting tax filers could get the refunds for any additional deduction made from these bills or carry forward this additional amount for the next year.

They rarely do that because they are hesitant to provide all documents to prove their claim.

Now those evading taxes (and they make the majority) are comfortable with the exiting tax regime of indirect taxes that can be recovered from the consumers.

A few honest taxpayers consider the indirect collection of taxes as an advantage for non-filers that recover all taxes from the consumers.

The tax machinery has badly distorted the actual aim of indirect taxation.

It was conceived that after paying high indirect taxes the evaders would register in the net. But as already pointed out they pass these taxes on to the consumers.

Still all those who pay indirect taxes leave the trail for the tax collectors. Instead of waiting for them to file tax returns the tax collectors should have confronted each of them and asked for the details of their businesses that consumed so many inputs, which they bought after paying indirect taxes.

This was not a difficult task as it is inconceivable that an enterprise or an individual incurring a monthly electricity bill of Rs20,000 or more does not earn enough to warrant to be bracketed in the income tax.

As far as industry is concerned a unit paying Rs2-3 million electricity bill per month ought to earn much above the 10 percent deduction made from that bill.

Such an enterprise might book some loss due to other adverse circumstances but it could not go on footing this bill for a longer period. The tax collectors in Pakistan preferred that the tax evader comes to them for tax registration.

Under any law it is the duty of a government official to act promptly whenever they smell some wrongdoing.

The Pakistani tax collectors are not too naive to let any wrongdoing escape their notice. But when they don't want to then they even turn a blind eye to high-rise plazas that challenge every concerned department to take action against the violators, if they dare.

In simple words it is the rent-seeking culture nurtured over years that ensures fixed payment to different layers of bureaucracy.

It is the same in police and revenue departments.

Tax reforms introduced in the past have failed to bust the collusion between the taxpayers and collector. Earlier, the taxpayer was at the mercy of the collectors.

Now the collector has been made toothless that has given a free hand to the taxpayer.

The balance would come when the transparency in the system is improved where concealing income becomes impossible.

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