

Taxing times

The shock-and-awe effect generated by tax profile portals is unmistakable. It's thick in the air actually. What needs to be seen, however, is the conversion of this scare into tax deposits. Will this disclosure of income and assets nudge people to pay their due taxes? Interestingly, tax lawyers have their doubts.

The corporate sector, which blames the low tax compliance and a narrow tax base for what it calls an unfairly high tax burden on itself, fully supports the spirit of the current taxation efforts while expressing some reservations about its form.

Traders and small unit holders, a class that dominates city chambers and trade bodies, are actively opposing the Federal Board of Revenue (FBR) and holding protests wherever they can against the tax measures and the drive to nab the evaders.

On their part, economists believe the country has reached a point where fundamental changes to improve domestic revenue generation are unavoidable. They do emphasise, however, the value of a prompt government response to fair concerns about incorrect postings or the privacy and security of online data.

People at large are still confused though intrigued by the aggressive stance of taxmen who are generally perceived to be imperfect themselves. Some are scared of the legal cost of getting their record corrected on the FBR portal and furnishing response in case they receive tax notices.

People are confused because of the aggressive stance of taxmen. Some of them are already furnishing their response in case they receive tax notices

Last month, FBR Chairman Shabbar Zaidi explicitly put on record his intent. Speaking at a press conference, he said the government had access to data related to the real net worth of 53 million people. It was to back up the assertion that the data was made available on the web portals of the FBR and the National Database and Registration Authority (Nadra).

He thinly veiled the threat of an immediate crackdown on tax evaders by mentioning that the data had not yet been transformed into an actionable format. He added for good measure that the FBR also had access to details of 50m personal bank accounts, but the information had not been shared with Nadra. Not yet, that is.

Keeping in view the history of similar campaigns in the past and their outcomes as well as current capacity constraints within the FBR, tax practitioners in the legal fraternity are sceptical. "A half-baked attempt in Pakistan can backfire as people are already reluctant to trust the government with their money because of weak delivery of social/infrastructure/security services.

"Tax compliance can't be achieved on a whim by shaking people's confidence in haste. It's a painstaking, long-drawn process that starts with the strengthening of the tax administration," said Ejaz Hussain Rathore, a senior tax lawyer, while talking to Dawn over the phone.

"All law firms are inundated with client queries about the implications of the current FBR moves. People have reported grave discrepancies in their personal data on the FBR portal. This is unfair and has further hurt the credibility of the law-enforcers. If diligent handling of such a big pool of data was difficult, the FBR could have started with top 50,000 accountholders or less instead of loading flawed information of 53m citizens. Creating unnecessary panic without sound actionable data will not serve the purpose," he argued.

“The proof of the pudding is in the eating, as they say. The tax mobilisation data of the very first quarter of 2019-20 will reveal the rate of success of the current strategy. To me, the Rs5.5 trillion revenue target is unrealistically ambitious,” he added.

When reached by phone, Nadra spokesperson Faik Ali Chachar declined to comment on the benefits or pitfalls of the current FBR drive. “We followed the federal government’s directions in letter and in spirit, and posted online the data that we had. It is beyond our domain to gauge the success or share any details of the traffic on the portal,” he said.

Inland Revenue Member Dr Hamid Ateeq Sarwar, who is also the FBR spokesperson, said the current strategy was already yielding results as 90,000 new taxpayers had expressed their intent to file tax returns.

“From 1.3m taxpayers in 2017, the number rose to 1.7m in 2018 and now stands at 2.05m in 2019. The World Bank hopes the number will touch 4m by 2022. We in the FBR, however, target to touch that count by the end of 2020,” he said.

“The initial period is the toughest. Once critical mass is achieved, the going will become easy. We are reading early signals of greater inclination among citizens to abide by tax laws primarily because they feel that now we mean business and the cost of dodging taxes will exceed the benefit of evasion,” Dr Sarwar pointed out.

Dr Rashid Amjad, an eminent economist and former vice chancellor of the Pakistan Institute of Development Economics, believes the country can’t carry on with an irresponsible mindset, be it the private sector, the government or citizens. He was referring to the low tax compliance by people, resistance to documentation in the business community and poor governance.

“There is a lot of anxiety (over the FBR portal) and the government needs to act swiftly to remove discrepancies pointed out in the legislative structure or the online data pool. Now that it has notified its intent, it should now handle associated issues with kid gloves,” he said.

Pakistan is ranked 173rd in terms of tax compliance. It is often referred to as a poor country of a relatively rich citizenry. But people right now are a bit confused, according to Muneer Kamal, a retired banker and former chairman of the Pakistan Stock Exchange (PSX). “There is more on the plate than people can chew. There is the IMF, FATF, amnesty scheme, new budget measures and online portals... It shouldn’t be surprising if people are overawed. The fiscal deficit is unsustainable and the tax base needs to be widened. Any move in that direction is positive.”

Dynamics are changing for the private sector, he said. To him, it made “perfect sense if they step back and reassess and recast their business plans to adjust to the ground realities”.

Employers Federation of Pakistan President Majyd Aziz acknowledges that the government is trying to change the decadent structure. “The problem is with the mindset, and it would be vain to expect a change overnight.” He advised caution.

“Out of the frying pan into the fire will not serve anyone. The government need not lose sight of the street and shutter power when it goes about doing its business,” he said while referring to public protests against harsh economic policies and the threat of lockouts by the small and medium enterprises, which absorb the major chunk of the country’s manpower.

Amid all this, what is the salaried class thinking? “Paying taxes has not helped the salaried class. It will be of no use to us because the government won’t do anything for us. As far as we are concerned, it is like throwing our hard-earned money down the drain,” remarked a dejected lady working in an upscale boutique in Karachi.