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Fiscal fantasies

Pakistan's fiscal woes continue to grab attention of all stakeholders and now a stage has come where its basic structure is going to make the people of Pakistan pay a heavy price. The next IMF program will have a number of conditions but its success will largely depend upon the ability of the Federal Board of Revenue (FBR) to materialise its highly ambitious tax collection target of Rs5,550 billion in the next budget against the projected revenue collection of Rs4,150 billion in outgoing fiscal year ending on June 30.

The downward-revised collection target of Rs4,150 billion is highly unlikely to be achieved despite tax amnesty scheme. The FBR had netted Rs3,333 billion in July-May period of the current fiscal year (2018-19) against the desired target of Rs3,758 billion, reflecting a shortfall of Rs425 billion so far. The overall shortfall might exceed Rs500 billion due to which the gross budget deficit would escalate beyond 7.5 percent of the GDP or Rs2.8 trillion till end June. Even for achieving the target, revised down from Rs4,398 billion to Rs4,150 billion, the FBR will have to collect Rs817 billion in June 2019 in order to display the revised figure of Rs4,150 billion on its board. If the FBR achieved its revised target of Rs4150 billion in the outgoing fiscal, the board requires a growth of 35 percent in revenue collection to boast Rs5,550 billion figure by next fiscal year.

The FBR had achieved maximum growth in collection in the range of slightly over 20 percent in the fiscal year (2015- 16), which was the highest in last two decades. So expecting a revenue growth of 35 percent at a time of economic slowdown is nothing but wishful thinking and a desire of someone who seems to be totally blank on the prevailing reality in Pakistan's economy. The Pakistan Tehreek-e- Insaf (PTI) government is supposed to generate Rs1,450 billion in additional revenues including Rs750 billion additional taxation measures through raising tax rates and abolishing tax exemptions and remaining would be collected through nominal growth and administrative improvements.

The heavy taxation might result in upheaval on political front in the aftermath of budget for 2019-20. Shabbar Zaidi, the incumbent chairman FBR, will have to do something fundamentally different on account of broadening the narrow tax base if he wants to deliver on improving fiscal position. The haphazard and confused approach will lead the FBR nowhere and the next Intrenational Monetary Fund (IMF) bailout package will be put into danger zone from the first half of the next fiscal year in case of failure of tax machinery to deliver on the front of meeting quarterly or biannually agreed targets. Owing to the inability of all governments irrespective of any political divide or even military-men led or democratically elected, no one could succeed in widening the narrow tax base by bringing equity in taxation structure. The equity demands imposition of taxes on areas and individuals who make more money through direct taxes but in Pakistan the practical ratio of indirect taxes stands at 88 percent and just 12 percent are contributing to direct taxes.

The fresh tax amnesty focuses more on providing carrot but lacks stick. The tax machinery termed Benami Act as major a stick that could be used against those who will prefer not to avail this last chance. But the question arises that the FBR does not have practical know-how to operate under Benami law and the tax machinery did not have any applicative knowledge about use of this new law.Secondly, the FBR has taken all such steps in recent days, which basically gives out the message to field formations that there was no need to take all-out action against any potential evaders and they would prefer to strike "deals" for filling their own pockets instead of forcing taxpayers to pay into the national kitty. The FBR had always proposed powers of confiscating all undeclared assets but this time again this proposal was not made a part of the approved scheme. This proposal has been floated by the FBR several times to replicate Indian model where their income tax law allowed, under section 132, 132A and 132B, to take stern actions including search, confiscation of assets and money that was undeclared before the tax authorities. Without the policy of carrot and stick, no amnesty scheme in any part of the world could pull off that feat.

Around 13 amnesty schemes have been introduced in the country since 1958 by different governments, military and democratically elected alike, but all failed to yield the desired results. The Indian Income Tax law under section 132 allows search and seizure. The fresh tax amnesty scheme had so far received a cold response as the FBR received 1,272 declarations with paid-up tax amount of Rs936 million in the pipeline. The last amnesty scheme had secured Rs90 billion tax during the last 10 days of the amnesty scheme so this time the amnesty would get a good response in second half of the June 2019. With this dismal performance on revenue collection front, there are some economists such as Dr Nadeem-Ul-Haq, Dr Kaiser Bengali, and others, who are suggesting the government to slash down expenditures by doing away with duplication of ministries/divisions and departments in the aftermath of 18th Constitutional amendments.

Dr Bengali is suggesting some shift in taxes among the center and the provinces in order to improve fiscal position. The fiscal deterioration that is worsening with every passing day has come to such a point that cannot be solved by status quo. Some innovative fiscal arrangements will have to be done to move forward. It should be done both in shape of generating revenues from all sectors and slashing down expenditures as well to bring desired improvements. Without political will and crystal clear vision, the desired goal will remain a pipe dream only.

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