

PM's recorded message to tax non-filers

Prime Minister Imran Khan's recorded message was aired by the state-run television exhorting those with benami accounts and properties to declare their assets under the Assets Declaration Scheme, launched on 25 May after the State Bank of Pakistan and the Federal Board of Revenue notified the procedures. He adopted a carrot and stick approach liberally mixed with a strong patriotic flavour: "it is better to serve Pakistan and declare your wealth. This would enable us to create a better future for our children, make our country self-reliant and uplift poor people. Most importantly you would be able to sleep peacefully. You would not have to worry about institutions coming after you."

While clearly the objective of the scheme is to bring the non-filers into the tax net, a salutary goal, yet one would not be remiss in assuming that given the widening budget deficit and the falling foreign exchange reserves success of the scheme would lower the pressure on the government to procure foreign and domestic loans - be they from multilaterals/bilaterals/commercial banks or through debt equity. And therefore the objective of the Prime Minister's speech was clearly to maximize the scheme's effectiveness.

During his speech, the Prime Minister contended that only one percent of the population pays tax. This statement is inaccurate and whosoever briefed the Prime Minister must be taken to task for providing the country's chief executive with patently flawed information. Only one percent of the population pays income tax but all pay sales tax, even the poor and the vulnerable with a mobile second-hand phone, in fact they also pay advanced income tax although their incomes are much below the threshold that attracts income tax. Sales tax is payable by all, be they filers or non-filers, on use of a commodity or service and hence to maintain that only one percent of the people of this country pay taxes does not present the real picture. The Prime Minister would do well to note that FBR engages in the dishonest practice of placing withholding taxes, which are largely in the sales tax mode and not in the income tax mode, with income tax. Thus in the revised estimates of 2017-18, income tax collections were no more than 468 billion rupees out of total income tax collections of 1,540 billion rupees and total collections of 3.935 trillion rupees (around 12 percent of total collections).

Be that as it may, one would not have to wait too long for the results as 30 June 2019 is the cut-off date. Revenue projections under the scheme are no doubt being made by the Finance Ministry as it finalises the budget 2019-20 (though the scheme's timeline to clear due taxes on undisclosed assets declared under the scheme has been extended up to June 30, 2020). Thus any deviation between projection and realization of taxes under the scheme would have implications for the people of this country. If the amount is lower than projected, the outcome of all previous amnesty schemes, then other taxes would have to be raised as we would then be on a monitored International Monetary Fund programme. And in the event that collections are higher than projected then some relief may be forthcoming.

There is no doubt that our macroeconomic indicators are a source of serious concern. Large-scale manufacturing (LSM) sector registered negative 2 percent growth this year and the situation is projected to worsen with the government's inability to clear refunds that would have provided liquidity to the sector due to insufficient funds; at the same time raising the discount rate would make capital injections more expensive rendering our products uncompetitive in world markets.

To conclude, the message that one would have hoped the Prime Minister had given to the people of this country is to work hard and long. Sadly, the notification giving four Eid holidays instead of the usual three is not the right message by any stretch of the imagination.

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