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Tax concerns

The new Federal Bureau of Revenue (FBR) Chairman Shabbar Zaidi has offered a not-so-rosy assessment of the country's tax apparatus. In a letter to Prime Minister Imran Khan, the FBR chairman called Pakistan's existing tax system a 'threat to the economy.' This is a serious charge, which also raises the question of what the new FBR leadership wants to do about it. And more seriously, whether it will oppose the decision to jack up the tax collection target to Rs5,500 billion? Zaidi has also criticised tax collection in the form of indirect taxes, instead of on the basis of real income. The reality is that, despite tax collection using methods that the FBR chairman claims are dangerous for the health of the economy, the tax machinery has performed rather poorly. Tax collection is likely to fall at least Rs500 billion short of the already revised down target of Rs4,150 billion. The measures being talked about to reach the Rs5,500 billion target in the next fiscal year are the same measures that Zaidi has criticised – and so did the sitting prime minister when he was in the opposition.

The principle of a tax system should always be to rely on taxing real income, instead of relying on taxes on consumption. This is not to say that sales tax should be eliminated, but that the application of indirect taxes should be kept to the minimum. This is exactly what the FBR chairman wants. As it stands, less than two million out of a population of 220 million are registered taxpayers, which means only one percent of the population carries the burden of running the entire state. This one percent, importantly, does not include some of the highest earning individuals and businesses in the country. Zaidi has noted that only 50 percent of the 100,000 companies registered with the FBR file their tax returns, while only 40,000 out of 341,000 companies with industrial electricity connections file returns. Similarly, 90 percent of the 3.1 million people with commercial electricity connections are outside the tax system.

The FBR chairman would like to start with documenting the economy, but this task is likely to take a step back with a mammoth tax collection target set for the tax collector. If the FBR chairman himself thinks that the current set of tax collection policies are a disaster, jacking those policies up is likely to have a worse impact on the economy. One can hope that sense prevails and the task of fixing the taxation apparatus comes first, generating more revenue later – but there is little hope of that happening in the existing environment. The FBR chairman's letter is timely and important. Will it get the attention it warrants?

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