

## **The Budget**

Rarely if ever, except perhaps during the initial years after our independence in 1947, has Pakistan faced such dire economic straits as those that confront it today. Consequently, the template of the federal budget was cast by the IMF programme terms that the country recently agreed with the Fund at the staff-level and has duly complied with all the prior actions required under the programme such as depreciation of the rupee, raise in discount rate and increase in utilities charges which will continue to change as part of the pass through principle as well as POL prices.

The most significant aspect of the budget is the extremely ambitious target of FBR revenue collection of Rs 5.55 trillion. The broad principles of proposed taxation measures for achieving this highly unrealistic target are said to be embodied in the Medium Term Policy Framework envisioned by the PTI government. This framework pivots around bridging the gap in actual revenue collection and actual potential in the medium term according to government estimates. An attempt has also been made to reduce the government's tax expenditure of Rs 540.98 billion that it incurred in FY 2018-19 as a consequence of multiple tax exemptions and concessions that were accorded to different sectors of the economy. The government rightly contends that while such concessions serve as an incentive to some but at the same time create distortions that undermine competition within the market and result in erosion or forfeiture of substantial government revenue. Another outcome of the gradual scaling down of such incentives would be the direly needed widening of the tax net. Besides phasing out tax concessions the government aims to seek uniformity in sales tax rates and review special procedures as multiple rates and different procedures make the system cumbersome and create distortions. One of the stated aims is to make efforts for an effective and harassment-free environment to ensure taxpayer compliance for which an IT-based interface instead of actual physical contact between the tax collector and the taxpayer through virtual platforms is an imperative. This would go a long way in reducing the trust deficit between the taxpayers and the FBR and minimise the cost of compliance. It is also a declared aim to move away from the regressive system of presumptive taxation that has distorted the relationship between income and asset creation beyond recognition. This would necessitate elimination of most of the withholding taxes that had become the mainstay of revenue collection (due to their ease of collection) and will also lead to improvement in Ease of Doing Business. All these and a main thrust towards documentation of the economy through use of data analytics are all in fact 'signature Shabbar Zaidi initiatives' that he had been advocating for decades before he assumed command of the FBR recently.

Another initiative of the PTI government is the Asset Declaration Scheme that is in progress until 30th June 2019. This has the potential to bring in substantial revenue for the government but more importantly to bring the assets parked in the dark, particularly Benami assets, out into the sunlight and widen the tax net significantly by increasing the number of income tax return filers. This has the potential to provide a kick-start to economic activity specially in the real estate and construction sector that would provide a fillip to a host of other industries that supply building and construction material. The decision to maintain the present rate of 17 percent for sales tax and not increase it is indeed an extremely courageous step and the government needs to be appreciated for this gesture. However, we feel that this would come into play as an option if the revenue collection efforts fall

short of the needed level and would serve as a fall back option. The decision to withdraw the 'zero-rate' facility accorded to the five leading export sectors namely: textile, carpets, leather, surgical and sports goods will definitely draw protests from the foreign exchange earners with some justification because the FBR's/government's track record on reimbursement of funds for tax paid on exports is unenviable. It is obvious that this was part of the already cast dye of the IMF programme as whatever leakage envisioned in zero-rated regime due to malpractice by some exporters is far less than what a one percent increase in the sales tax rate would have secured.

Tax rates for salaried and non-salaried classes have been enhanced while their threshold for applicability have been reduced simultaneously. This will impact both these classes of taxpayers significantly. Tax rates for the corporate sector have been frozen at the present level of 29 percent for the next two years. Banks have been accorded similar treatment as the corporate sector on applicability of super tax by removing depreciation and brought forward losses in the computing of income offered for this tax. Another important feature is the attempt to streamline tax regime for the real estate sector. For this purpose 'Notified Rates' by FBR for real estate in different parts of the country are to be increased substantially by bringing them close to 85 percent of the prevalent market price and at the same time the 3 percent tax on the difference between the Collector's rate and the FBR notified value of real estate is proposed to be withdrawn. The latter measure would plug a major loophole that facilitated the whitening of undeclared funds and negated the efforts to tackle the menace of money laundering

As regards expenditures, the budget document stresses 'austerity' as the key word. We had all along advocated the need for austerity as without that it is just not possible to conceive achieving the primary deficit reduction to 0.6 percent of the GDP, an essential condition of the IMF. In fact we had gone to the extent of suggesting that the armed forces should volunteer a cut in the defence budget and indeed they have. The senior officers in the civil administration (grades 21 and 22) too have offered to forgo any increase in their salaries. Now, what is needed is to cut the waste in the federal government by eliminating the separate ministries on subjects devolved to the provinces under the 18th Amendment such as health, education, social welfare, etc., and for purposes of coordination the ministry of inter-provincial coordination be assigned the responsibility in these areas. It is indeed important that exercise of austerity by the government should be clearly visible and meaningful not just cosmetic to motivate the people for tightening their belts which they would be required to for wading through these difficult times.

## RECORDER REPORT