

Tax noose tightening for evaders, short filers

LAHORE: Businesses are becoming more worried as they study the finer details of the federal budget. Some are convinced that business as usual would not be possible now, but the majority is convinced that the government can be pressurised.

The measures adopted in the budget seem to have been prepared by experienced hands fully aware of the different escape routes that the businessmen adopt to evade the full impact of the taxes. Federal Board of Revenue (FBR) Chairman Shabbar Zaidi has a pretty good idea of the loopholes in our taxation system.

Perhaps he has also guided many of his past clients to take benefit of these loopholes. As revenue collector, he must have made the best efforts to plug the avenues of revenue leaks. His collaboration with Dr Hafeez Shaikh seems like a lethal combination.

Up till now, the government planners have been trying to bring tax evaders into the tax net, and the businesses have been claiming that they were being overtaxed through constant increase in tax rates, while the tax evaders were spared.

The efforts to bring new taxpayers in the tax net did succeed despite availability of irrefutable evidence against them. What surprised most experts, was that the tax collection from the officially documented economy remained much below regional level.

The official GDP of Pakistan is \$300 billion and the tax collection of Rs4,000 billion at federal level was below 10 percent of GDP against regional average of 18 percent. This low percentage of tax belies logic, as the businessmen claim that Pakistani businesses are heavily taxed.

They are correct that the tax rates in Pakistan are higher than India. If the businesses paid actual taxes, our tax to GDP would have been higher than that of India.

This time around, the government decided to nab both tax evaders and short filers. The withholding taxes on non-filers have been raised to a level where it would be better to come into the tax net.

In fact, the concept of non-filers has been abandoned. Now each of the moveable or non-movable assets can only be purchased against a CNIC.

The non-filers would pay higher tax and would be liable to prove the source of income to the revenue authority and file tax return.

At the same time, all exemptions on tax compliant sectors have been withdrawn, as most of these exemptions were being misused.

For instance, textile exporters were exempted from sales tax while there was a five percent sales tax on domestic sales of textiles. The government could collect only Rs14 billion from the domestic sales of textiles.

The retail sector of textiles according to government estimates is Rs1,500 billion while All Pakistan Textile Mills Association (APTMA) claims that it is Rs1,000 billion. The sales tax collection falls too short of actual sales whether calculated on APTMA estimates or the government.

After the withdrawal of the exemption on the entire textile chain, including raw cotton, it has now been brought under the sales tax regime and the rate has been enhanced to 17 percent.

It has disturbed the exporters, who are contemplating to launch a protest. There however is a divide between the subsectors of textile.

One association has been convinced that the exemption would not be withdrawn. They are requesting the government to exempt cotton and few cottage sectors like sizing from sales.

They are also asking the government to refund the sales once the exports are executed and not wait for export proceeds. They say the government may conduct audit of sales tax after making the payments. Most of the exporting sectors are however demanding restoration of zero-rating facility. The value-added sectors do not see eye to eye with basic textile players.

There is discontent in government camp as well. The officials of the ministry of commerce are openly advising the five exporting sectors to register their protest in a unified way to exert pressure on the government.

The troika comprising Hafeez Shaikh, Shabbar Zaidi, and Dr Reza Baqir are on one page and want to gather taxes from those that are outside the tax net and also from those that pay less taxes than their dues.

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