BUSINESS RECORDER
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## FY20 tax proposals

Khusro Bakhtiar, Minister for Planning, Development and Reform, pledged that the PTI government would raise tax to Gross Domestic Product (GDP) ratio to 12.6 percent - 1.6 percent higher than the rate for the outgoing fiscal year as no economy can function without sufficient revenue collection. There can be no disagreement on this; however, two elements need to be highlighted. First, tax in this instance is limited to collections by the Federal Board of Revenue (FBR) which, in turn, has ceded around 70 percent of all direct tax collections to withholding agents though the Board does exercise powers to ensure compliance. Second, during the past six years, tax-to-GDP ratio has hovered between 9 (revised estimates of 2013-14) and 11.4 percent (revised estimates for 2017-18) to 10.8 percent (revised estimates of 2018-19).

Bakhtiar cited GDP growth projection at odds with the budget documents - a key economic indicator used to calculate all major macroeconomic indicators, including tax-to-GDP ratio that would be the target of reforms to effect stabilisation under the IMF programme. He cited GDP growth rate at 4 percent for the next fiscal year but 2.4 percent in the documents. And the press brief with new budgetary measures provided to the media in the post-budget press conference did not provide any clarity on the growth rate.

Be that as it may, the new Chairman FBR, Syed Shabbar Zaidi, plans to enhance documentation through some key measures, including (i) doing away with the distinction between filers and non-filers (thereby no longer providing legitimacy to non-filers) while at the same time launching a tax profiling system containing comprehensive data for 53 million people inclusive of bank details, properties, utility bills and travel history, though Zaidi acknowledged that it is non-actionable at this stage while making it actionable is a long process; the government, however, appears to have granted special treatment to the real estate sector if it takes advantage of the tax amnesty scheme and declares benami/undeclared/under-declared/property then tax payable would be 1.5 percent. In contrast, concealed income carries a maximum income tax rate of 35 percent, and with penalty implies a 70 percent rate of tax; and (ii) anomalies that require to be dealt with including (a) doing away with presumptive tax which can be supported, however a minimum tax has been imposed that may be audited thereby minimizing the benefits associated with this measure, (b) in some instances, import of raw material is taxed at a higher rate than the imported finished product.

However, the 5.5 trillion rupee revenue requirements identified by the Advisor to the Prime Minister on Finance attributed to his agreement with the International Monetary Fund prior and during programme conditions, are considered unrealistic by many especially in light of the actual collections during the current year of 1.45 trillion rupees. Thus Zaidi had no option but to proceed with raising existing taxes, particularly continued heavy reliance on sales tax inclusive of raising the rate of sales tax on sugar - an indirect tax whose incidence on the poor is greater than on the rich. While this is certainly true from the FBR perspective, yet one would have hoped that Dr Hafeez Sheikh had been more courageous in reducing current expenditure especially in light of the voluntary reduction by the two main recipients of current expenditure notably the armed forces and the civilian administration, a sacrifice that is unlikely to roll over into 2020-21.

It is also relevant to note that Dr Sheikh has added two major expenditure items to current expenditure whereas previously they did not form a component under this head. First, he has added grants and transfers, ie., Ehsaas programme, under current expenditure which leads one to suspect that perhaps this item may be axed in the event that the budget deficit exceeds the IMF programme target. And second, provision for contingencies is allocated 115 billion rupees for 2019-20 - an item that was not part of the current expenditure in previous budgets and that may be the first item that he can show as having been cut in the event of failing to meet the budget deficit targets.

Finally, Bakhtiar also highlighted the fact that the then finance minister Ishaq Dar wasted 66 billion dollar fiscal space created due to low international oil prices during his tenure to stabilise the economy. While holding no brief for Dar's economic policies particularly in reference to keeping the rupee overvalued through market interventions that were backed by external borrowing he used the fiscal space to reduce the budget deficit - a reduction that fell by the wayside as the IMF programme was completed in September 2016 and the elections 2018 loomed large on the horizon. The PTI government in contrast was almost exclusively focused on reducing the current account deficit (through over 9 billion dollar borrowing from friendly countries) while also borrowing heavily domestically to meet expenditures leading to an unsustainable budget deficit that accounts for the extremely harsh IMF conditions.

To conclude, there were shortcomings in the economic policies during the past six years and one would hope that data manipulation of the past, be in the calculation of major economic indicators, or relocating certain items in the budget, be abandoned in favour of greater clarity for all stakeholders, particularly the people of this country.

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