

In the economic scheme of things

The Pakistan Tehreek-e-Insaf (PTI)-led government is going to complete its first year rule with the highest ever absolute figure of budget deficit. The government is left with no other option but to take drastic measures to ensure its survival after entering into an arrangement with the IMF.

Against the revised estimates of budget deficit of 7.2 percent of Gross Domestic Product (GDP) for the outgoing fiscal year ending on June 30, 2019, the overall budget deficit is going to witness new heights and it will be standing in the range of close to 8 percent of GDP or over Rs3 trillion in 2018-19 against Rs2.2 trillion in last financial year 2017-18.

Now the last bet of the government is relying upon its Asset Declaration Scheme 2019 known as Amnesty Scheme with a bleak possibility of any major success in luring non filers or under filers to come into tax net voluntarily to whiten their black income/assets. Keeping in view the dismal response so far the government might consider extending the deadline for availing asset declaration scheme provided the IMF agrees. It would not be an easy task for the government's economic team to convince the IMF at a time when its executive board is scheduled to take up Pakistan's request for next bailout package of \$6 billion under 39-month Extended Fund Facility on July 3, 2019.

Chairman Federal Board of Revenue Shabbar Zaidi told TNS the government had not made up its mind on extending the deadline of the scheme. However, he conceded that Prime Minister Imran Khan has discussed this issue with him. "At the moment, it is 'No', but we will again discuss it," he added.

It's beyond any doubt that Pakistan's tax base is highly skewed and narrow as less than one percent people out of over 200 million have become filers into the tax system. With such low base and rampant under-filing, it will be the toughest task for the ruling party to expand tax-to-GDP ratio under the IMF programme because in case of failure the government will be forced to come up with mini budgets in the coming fiscal year.

The FBR came up with latest tax amnesty scheme for whitening of black economy by offering people to pay 4 percent on cash assets held within Pakistan and 6 percent on cash assets kept abroad till its expiry on June 30, 2019. The rate for availing the amnesty scheme would go up by 2 percent from 4 to 6 percent for those who would declare their money or assets owned abroad, but would not bring back into Pakistan.

The FBR high-ups claimed that there were no revenue estimates for this tax amnesty scheme but it aimed at providing a last opportunity to tax evaders to avail it otherwise the government would launch a massive crackdown against Benami account holders and asset holders. The FBR, for the first time in the country's history, has got data from banks on withholding statement and bank accounts having deposits of more than Rs0.5 million.

The last amnesty scheme introduced at the twilight of PML-N-led regime had fetched Rs124.8 billion in taxes for whitening of Rs2.5 trillion black assets and income. Out of total Rs124.8 billion, the FBR had collected Rs90 billion in June 2018 while the remaining amount was collected in July 2018.

The government had received total 82889 declarations in the last tax amnesty scheme for whitening of Rs2500 billion out of which foreign assets worth Rs1040 billion and domestic assets of Rs1460 billion were made part of the formal economy. Out of total 82889 declarations, the FBR received 5929 foreign and 76960 domestic declarations. The last amnesty scheme had fetched \$436 million foreign currency.

Comparing with the collection of Rs124.8 billion through last tax amnesty scheme, it would be hard for the FBR to cross revenue collection figure of Rs30 to Rs40 billion this time. Although the FBR does not own it officially, there were some internal estimates suggesting that the tax machinery was eyeing to collect Rs150 to Rs250 billion under the scheme.

Economist Dr Ashfaq Hassan Khan told TNS the response to the amnesty scheme so far was very low and the government must explore the possibility of extending its deadline. “The scheme should be extended because there was Ramzan and then Eid holidays and the FBR could not convey its message clearly. If this scheme helps in achieving the documentation target then it should be extended.” Khan added that efforts should also be made to clear people’s fears about the documentation purposes.

However, tax experts argued that the latest scheme has imposed restriction that the declared amount would have to be deposited into bank accounts. The Benami Act that existed since 2017 had been operationalised by the government in Feb 2019. Now possession of Benami income or assets entails seizure of bank accounts and assets and imprisonment for seven years.

The clearing of sales tax liabilities will be done at the rate of 2 percent and those availing this scheme would have to become filers. This scheme allows businessmen to revise their balance sheets on books. The scheme has slapped a default surcharge in the range of 10 to 40 percent up to June 2020 on those who will avail themselves of the scheme by filing declaration till its expiry date of June 30, 2019 but would not deposit the due tax amount. If the tax is paid after June 30, 2019 and before September 30, 2019, the rate of default surcharge would be 10 percent of the tax amount. If the tax is paid after September 30, 2019 and before December 31, 2019, the rate of default surcharge would be 20 percent. If the tax is paid after December 31, 2019 and before March 31, 2020, the rate of default surcharge would be 30 percent and if the tax is paid after March 31, 2020 and before June 30, 2020, the rate of default surcharge would be 40 percent of the tax amount.

With the start of new financial year and enforcement of Finance Act 2019-20, the compliance requirements have changed altogether and both the FBR and taxpayers will have to equip themselves in order to fulfill increased documentation requirements. It will be the biggest challenge for tax managers to enforce tax laws effectively because there are chances of evasion after the new stringent taxation measures. The FBR needs to come up with a comprehensive implementation and tracking plan to achieve its desired results. The FBR will have to equip itself with information technology to broaden its tax base as sucking the blood of existing taxpayers would provide no solution to overcome fiscal woes of the country.

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