

### **Nothing wrong with a new tax agency**

Prime Minister Imran Khan's announcement to create a new tax collecting agency if need be, and the ensuing commentary ('New FBR – yes please' published March 12, 2019) on that idea in this space earlier this week invited a variety of reactions. Here is a quick summarized run down of those reactions from readers and economic commentators alike, and responses thereof.

The first of those reactions was more of a question: whether the government will indeed create a new tax agency. The answer: it's easier said than done but it is good to know that the option is being considered. With federal fiscal budget around the bend along with the ongoing IMF talks, the government cannot be expected to shake up the system any time soon – not especially when fiscal deficit is feared to run high. But if the government is to eventually decide on creating a new agency, then unnecessary delays will also have to be avoided in order to reap the benefits by General Elections 2023.

The second set of reactions was based on fears that the existence of lobby groups, and the absence of any stick without which any tax collecting agency, old or new, cannot deliver. That's a valid fear, albeit, not necessarily tenable. Lobby groups existed before and after provinces started collecting GST on services. But the growth in collection by provincial revenue bodies has shown that new agencies can deliver better – both in comparison to the FBR, and in comparison to other provincial revenue collection bodies such as Excise & Taxation and Board of Revenue.

Granted that income tax collection may be different from GST on services – both in administrative sense, and in the sense of interests and power of lobby groups involved. But it is not as if the FBR has been successfully running sophisticated data analytics, sending notices and then backing off due to pressure from those lobby groups. So many years have passed and the FBR is yet to even run analytics on the data they have been gathering from WHT mode of taxation. It cannot even present its tax directories in a manner that sheds some light on trends in tax collection; let alone analytics.

The third set of reactions ridiculed the very idea of creating a new tax agency. Bashing the ruling party, these critics argue that the notion of creating a new FBR reflects weak governance skills and helplessness of the incumbent government, and that an institution is not like some household appliance that can be replaced. Here, a couple of points need to be made.

Unlike what some critics might think, the idea that FBR can and might be replaced is not a PTI-specific proposal. The party need not be given the credit for this. The idea has been advocated by some independent tax experts for at least the last five years, and is very well rooted in academic literature.

Since the mid-90s, international tax experts have identified three conditions, simultaneous prevalence of which have warranted a new collection agency: (a) when tax gap is large – say north of 30 percent; (b) when civil service rules and regulations make it difficult to attract top talent in tax collecting agency and give them the flexibility and budget to run their shop; and (c) when there is widespread real or perceived corruption in the agency amid low voluntary compliance due to weak enforcement of audit and other tax laws. All of these are applicable in the case of Pakistan.

But these are not the only factors that necessitate a new tax agency. Academic literature shows that throughout the 90s, there was a trend among developing countries towards the creation of semi-autonomous revenue authorities to replace their then existing tax collection organisations. Lately, as BR Research piece (titled 'Reforming FBR: don't wing it' – November 18, 2018) pointed out, countries have been creating

completely autonomous entities that are separate from the ministry of finance. In many such cases, there is an oversight board, which includes external directors.

New institutions are not simply meant to be new institutions. Rather, the birth of new institutions is a result of broader set of reforms, which in the case of taxes inter alia requires recognition that legislation cannot replace the limited but important role of individual ethics in regulatory reform, and a constructive state-society discourse on taxes. Both the PTI and her critics would do well to be cognizant of this.

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