

No tax magician can pull rabbits out of a hat riddled with holes

LAHORE: If we examine the efforts being made by the Federal Board of Revenue (FBR) to increase tax base it would remind us of almost the same futile campaigns launched by the revenue collectors many times in past two decades.

Every time tall claims are made to nab the tax evaders and increase the tax to GDP ratio. The FBR claims now as in the past that it has with it huge data of wealth and assets of the tax evaders. In other words they are trying to treat the malady with a tried and failed remedy or remedies.

Efforts to nab tax evaders through available data might have increased revenues nominally, but the evasion continued to grow. A mechanism was put in place to plug the gaps that encouraged people to cheat the revenue collection system.

The FBR has announced a plan to bring into the tax net organisations and individuals that either completely avoid taxes or under-declare their incomes to remain under-taxed. This would be achieved through the confirmed data available with the FBR that gives some insight about the wealth of the tax avoiders or under-filers. The data relate to the monthly electricity bills, telephone expenses, purchases and expenses made where method of payment involved computerised national identity card.

This data is being continuously upgraded at the FBR and it should be seriously probed as to why the tax collectors continue to ignore it until some serious heat starts coming down from upstairs.

It is worth noting that the revenue collectors compiled a data of millions of households and business enterprises through a tax survey conducted with the assistance of army in the year 2000. The survey revealed startling information about the people living in posh localities or doing business in the most flourishing markets. It was found out that an overwhelming majority of them were not paying taxes or were paying nominal tax much below the apparent income level and their life style.

The then CBR (now FBR) announced to identify new taxpayers through this data. The program however could not take off due to stiff resistance shown by the trade and industry and influential segments of the society. The CBR twice announced to launch this drive of enlarging tax base and failed as hurdles created by powerful evaders' lobby forced them to retreat.

The same thing is happening this time as well. Those who do the state the favour of filing tax returns insist that whatever they have filed should be accepted as full and final settlement of their tax liability. When FBR raids their premises on the basis of available data, the tax filers call it harassment of tax compliant businesses. They exert pressure on the government to stop raids and every government in last 20 years, including the incumbents, obliged them. So this is an exercise in futility.

The approach of tax collectors is engineered to ensure that the campaign fails as it is not in their interest to document the economy. They generate huge personal revenue from the non-documented

sectors. The ruling elite should move cautiously. First of all it should serve all the FBR staff with notices as to why they did not take action against evaders earlier while sitting on this mine of a data that implicated them. The tax collection should then be transferred to another agency.

Before unleashing the new agency in pursuit of giving revenues an unprecedented boost, the government should clearly instruct them to first zero in on only those businesses and individuals that are not registered in tax net. Each taxmen should be tasked to bring in a certain number of new taxpayers on the basis of documented data. Governance experts point out that the huge wealth accumulated in the country without payment of due taxes is a testimony to the fact that the FBR has not been able to collect these taxes when the wealth was created. They said this process still continues. The availability of huge quantity of smuggled goods means that the smuggler first avoided all the import duties and then the made more money from the trade of smuggled goods. Had smugglers been nabbed and forced to pay the duty by FBR the ratio of tax avoidance would have reduced.

Similarly goods are allowed inside the country at absurdly low rates. In other cases some very high duty imported goods are declared in the invoice as zero rated or low duty products. Smuggling under-invoicing, wrong declaration of goods lead to undue profiteering that is not documented leading to illegal wealth accumulation.

The number of businesses not registered in tax net is higher than those that pay taxes (even if they under-report their incomes). It would take at least a year or two to document the economy if the government musters the political will in this regard. During the course of registering new taxpayers the government should issue repeated stern warnings to the under-filers to mend their ways. After sufficient documentation is achieved the rulers should then instruct the tax collectors to take action against under-filers.

The FBR will have to be totally corruption free to ensure that the unaccounted wealth does not accumulate in future.

Mansoor Ahmad