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Challenges for budget makers

It is time for the budget-makers of Pakistan Tehreek-i-Insaf to devise a comprehensive strategy to tap the real tax potential of the country, which is not less than Rs 8 trillion at federal level alone. The Federal Board of Revenue (FBR) has been employing all tactics and to collect even a paltry target of Rs 4,398 billion, the original target fixed was Rs 4,435 for the current fiscal year. FBR's main reliance is on indirect taxes, levied under the garb of income tax, shifting burden on the poor and blatantly favouring the rich. FBR, despite imposing all kinds of regressive taxes, blocking genuine refunds, raising fictitious demands and fudging figures by taking credit of the next year's advance tax in the current year and taking duplicate/multiple effect of tax challans at various stations, has miserably failed to improve tax-to-GDP ratio to a satisfactory level.

There is a consensus between official and independent quarters that Pakistan needs to strive very hard to come at par with many developing countries in achieving a desirable tax-to-GDP ratio of over 20%. Some radical changes like a reduction in exorbitant sales tax rate, the equitable tax base and simpler and fairer tax procedures are required to encourage investments and savings. The PTI government must prioritize its tax goals in the budget for the fiscal year 2019-20 to attain rapid industrial and business growth.

The challenge of broadening of tax base should be met on an urgent basis. No serious measures have been taken so far that can help in documenting economy and better collection of taxes without any hue and cry. For the forthcoming budget, the regime of PTI must have a definitive action plan, capable of checking leakages in tax collection and at the same time encouraging people to file their income tax/sale tax returns.

Present massive evasion in customs, income tax and sales tax can only be tackled through implementing an integrated/automated Tax Intelligence System (TIS), which is capable of recording, storing and cross-matching all inflows and outflows. For expanding tax base, the following measures are inevitable:

-- All in-bound and out-bound containers should be scanned/x-rayed to counter evasion of customs duties.

-- Anybody who pays sales tax and reports the same to FBR should be entitled to refund of 10% of the amount paid.

-- The procedure for claiming refund should be simple, i.e., payer of tax should send invoices to the Central Tax and Refund Depository, which should authorise refund from the nearest branch of National Bank, after verification of genuineness of the invoice (by checking sellers' registration number). In this way, the FBR can develop a data base about the sales of all registered persons and then can cross verify the same with the particulars declared by them in their sales/income tax returns; or alternately;

-- Any person who pays sales tax may be allowed to claim credit of part of the sales tax paid say 10% against income tax liability by producing all sales tax invoices obtained throughout the year. A detailed mechanism can be devised to cater to the situation where income tax liability is less than the amount of credit of sales tax.

-- In this scheme, people may choose not to claim full credit of sales tax paid by them since they may not justify the sources of all their expenses. To overcome this situation the government can announce immunity for 3 years from scrutiny of their expenses declared through sales tax invoices alone-it will go a long way to document the economy yielding more and more revenues in the coming years.

-- This scheme will encourage people to obtain sales tax invoice for each transaction, which is presently not being insisted upon. The evasion of sales tax is mutually beneficial. If sales tax payers are given the above incentive, they will insist for sales tax invoice and the government without expending any money or making extra efforts will be able to expand its tax net.

-- Such schemes were successfully implemented in Taiwan, Turkey and Venezuela. In India, the state government of Kerala introduced 5% sales tax for all retail sales with incentives to both the shopkeepers and buyers. The shopkeepers got a 10-15% refund of tax collected and paid to the government and the buyers retrieved VAT coupon of Rs 5 for every purchase of Rs 100. Every week a draw was held and coupons-holders won lucrative prizes. This scheme boosted retail sales of shopkeepers who were willing to get registered with the government. There has been tremendous increase in government revenues with the introduction of this scheme.

The government must remember that if taxation is viewed as being unfair or favouring some chosen ones, no reform programme can succeed and voluntary compliance will never improve. Special efforts and rational policies are needed to restructure the tax system and restore public confidence in tax officials. Even a good tax system will not work if the prevalent negative mindset of the tax official persists. There is an immediate need to improve both the system and the human fabric that controls it. The tax system must be reformed to provide:

-- Taxation of all incomes exceeding Rs 1,000,000, irrespective of its sources (agricultural or non-agricultural).

-- Broad-based Value Added Tax (VAT) covering all goods and services but at a low rate of 8 to 10 percent.

-- Taxpayers' Bill of Rights

The PTI government has so far wasted time in constituting committees to ponder over many issues relating to tax policy and administrative reforms, which in fact are in the domain of the sovereign Parliament. The recently-formed advisory committee to suggest improvements in the taxation structure and codes has come up with no meaningful plan for generalised concrete proposals have been made by copying from random sources. These committees are devoid of critical thinking let alone, capable of suggesting innovations.

Tax bureaucrats want to exert complete control through complicated laws and cumbersome procedures - nowhere in the world is delegated power available to an executive authority to undo laws passed by parliament through a Statutory Regulatory Order (SRO) - this unconstitutional, undesirable, undemocratic and notorious practice should stop once for all.

The need of the hour is a low-rate but across-the-board harmonised sales tax coupled with automated, speedy tax refund system. The system should not only be fair and transparent but at the same time its enforcement must be strict and stringent-there should be no sacred cows. The tax base cannot be broadened unless all the goods and services-barring a few essential eatables, books, children's garments, education tools-should be brought into the net of sales tax.

If the PTI government wants to implement the reforms agenda sincerely, it must study the case of the Mauritius Revenue Authority (MRA), which within the last 15 years has earned worldwide recognition of being an efficient and modern tax machinery. Not only revenues have increased by 300% by bringing all potential persons into the tax net, but service to the people has improved beyond expectations. In surveys conducted by independent bodies, MRA has got an approval rating of 95% from the people-a feat not even achieved by many Western countries till today. It is worthwhile mentioning that the MRA is headed by Sudhamu Lal, once Member Reforms in the FBR. He was not allowed to work freely by certain vested interests and on retirement was selected as Director General by independent MRA Board-a great honour for Pakistan which nobody has ever acknowledged or even noticed.

The MRA Board has more representation from the public than from the government - this autonomous body selects senior officials of the MRA who implement laws without any political interference. They work without any fear of victimisation, but face tough accountability from an independent Board. The success of the MRA in a short span of time confirms that the tax reform agenda can be implemented if work is done professionally and honestly. One wonders if the Board-in-Council of the FBR or Advisory Board has even bothered to study the MRA model and its great success-perhaps they are not even aware of it. This shows how isolated they are from the global experiences and success stories in other tax jurisdictions.

FBR should be an autonomous body insulated from outside political, financial and administrative pressures, but in no way should it assume the role of legislature, which under the Constitution is the sole prerogative of the people of Pakistan through their democratically-elected representatives. The Parliament should devise, through a democratic process, a rationale and acceptable tax policy after taking input from all the stakeholders and experts in the field.

The governments must learn from the experience of others and should immediately take due cognizance of disparities and dichotomies existing in the prevalent tax system, remove them and ensure redistribution of wealth through progressive taxation rather than thriving on indirect taxes. Taxes collected should be spent on the well-being of public and not for mere comforts of rulers. Taxes if spent on the well-being of public at large can make the State invincible and if squandered for the luxuries of rulers and State functionaries, are bound to lead to national disintegration, social unrest and economic disaster.

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