

Tax amnesty: putting the cart before the horse

‘Tax amnesty scheme is for looters’; ‘it is an economic bloodshed’; it’s a ‘slap on tax payers’ face’; ‘it’s a joke’. These are the words of Finance Minister Asad Umar just last year when his party was still in opposition. Even until December 2018, Umar categorically said his party – that had previously submitted a bill in the parliament against the then government’s tax amnesty scheme - is not mulling over any new amnesty scheme. Now with PM Imran Khan considering ideas for a new amnesty scheme, expect the party to soon try to pull off the mother of all U-turns and figuring out ways how to justify it.

Whether this reflects a change of moral values or the realisation of the practicalities of running a country that often eludes idealists is another debate. Khan’s U-turn speech would soon shed light on that, one hopes. But for all sense and purpose, there are confirmed reports that PM Khan is now considering another tax amnesty scheme, and is already taking advice for the same from the business community.

In their recent meeting with the PM, representatives of chambers of commerce and traders’ community have reportedly urged the PM to announce a new tax amnesty scheme. The request, sources say, has been well received by the PM who has sought ‘practical’ proposals from the business community to ‘focus on industrialization’ rather than merely revenue generation.

Things are only at the idea stage at the moment, and therefore it is too early to conjecture on the direction of the amnesty scheme, if indeed the PTI takes that U-turn. But perhaps the single biggest direction the new scheme might take is towards increased documentation of local assets – the formalisation of informal economy - and bringing back home both declared and undeclared foreign assets.

Before Asad Umar decides on a new amnesty scheme, however, it is critical to address three concerns. First, the government must stop the harassment of business community, especially those who have already wiped the slate clean by declaring their foreign assets. On that note, the government needs to ensure that it doesn’t rely on unreliable and factually incorrect datasets – such as data kept by real estate brokers in Dubai. Harassment after the declaration of assets will only erode business community’s confidence on the state – and that doesn’t pan out for the better, ever.

Second, while a considerable portion of undeclared domestic and foreign assets may be the proceeds of crime or other ill-gotten money, not every undeclared domestic and foreign asset is a product of that. The government needs to understand that the very design and structure of Pakistan’s economy in general and taxation in particular facilitates the creation of undeclared or under-declared assets.

The presumptive tax regime that side-lines documentation by its very design, and the differences between DC rate, FBR rate and actual transaction cost of real estate, are two of the most obvious examples of how undeclared assets eventually pile up every once in a while.

Also consider the absence of level playing field that businesses face in so far as customs is concerned for instance, which in turn forces businesses to cook their books and stay competitive, leading to un-or-under-declared assets which many of them often whiten through prize bonds.

The point being: until the government addresses the causes that lead to the creation of undeclared assets, amnesty schemes will keep on being born out of compulsion every now and then. There have already been at least six amnesty schemes late 90s – i.e. a norm when such schemes ought to be an exception.

This brings us to the last point, which is the notion that another amnesty scheme at this stage will be akin to putting the cart before the horse. An amnesty scheme becomes an exercise in futility if it is not followed by strict action against those who didn't avail it.

Following the WHT-isation of Pakistan's economy in the last few years, the FBR is sitting on an enormous data architecture that it simply isn't using to effectively triangulate datasets and catch the bad guys. Before rolling out a new amnesty scheme the government's tax body – the existing one or any new one - needs to beef up its analytics, and show its teeth to the tax evaders that it means business.

Once that ball is set in motion, and the people are convinced that there is no way you can cheat the system anymore, that's when the government should offer a new amnesty scheme as a one-time escape route. At present the people know that the government doesn't have the ability to bite; not even the teeth to show for. Why then would one bother to swarm in and wipe their slate clean?

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