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IMF wants abolition of Rs700 bn tax exemptions

ISLAMABAD: Pakistan and the IMF talks have entered into most critical phase of evolving consensus on number crunching of key economic sectors and required policy actions to strike a staff level agreement.

In this make or break phase, the IMF has placed a condition to abolish tax exemptions of over Rs700 billion in two years and the PTI led government will have to abolish major tax exemptions of sales tax, income tax and customs duty in the range of Rs350 billion in the coming budget 2019-20.

The IMF has put the FBR's potential of collecting revenue on higher side with the possibility of netting Rs5,550 billion in the next budget at a timewhen the FBR's revised collection might not exceed more than Rs3,950 billion in the outgoing fiscal year.

It will be challenging situation for the newly nominated Chairman FBR Shahbar Zaidi to achieve such a gigantic task by collecting additional revenue of Rs1600 billion in single year. However, FBR officials argued before the IMF team that the tax collection should be fixed on realistic grounds.

The IMF has also placed condition to further hike the discount rate by 75 to 100 basis points upfront from existing policy rate of 10.75 percent. Another critical target will be envisaging Net International Reserves (NIR) as the SBP will be asked to achieve quarterly target for jacking up foreign reserves. The SBP will have to buy dollars from the market so there will be pressure on exchange rate. The withdrawal of subsidies for power, gas sectors and placing roadmap for elimination of monster of circular debt will be another key condition of the IMF programme.

With key changes at the top levels, Pakistan's negotiating position has weakened so it is yet to see that how much tough condition will be put in place if both sides struck agreement on staff level agreement till coming Friday.

The coming three days are quite crucial for ongoing parleys among Pakistan and the visiting IMF team as if consensus achieves then press conference will be arranged at the end of talks. During the ongoing parleys with the IMF, the FBR has estimated that the tax exemption under Statutory Regulatory Order (SRO) 1125 (I)/ 2011, dated 31.12.2011 for five major exporting sectors at zero rating including leather, textile, carpets, surgical goods etc. on their domestic sale has been causing revenue loss to the tune of Rs90 to Rs100 billion per annum. However, the World Bank has estimated that this revenue loss was standing in the range of Rs300 billion on per annum basis. "The elite capture has obtained all kind of tax breaks, concessions, privileges and incentives are causing revenue loss to the tune of Rs700 to Rs800 billion per annum and the FBR has estimated that they can abolish such exemptions to the tune of Rs350 billion in the next budget while remaining exemptions can be done away with in the second phase of 2020-21," said the official.

The FBR high-ups have estimated that they could collect Rs5000 to Rs5001 billion with nominal growth of 13 percent and in case of getting permission of the government to take additional measures of Rs500 billion. If the government envisages FBR target of Rs5550 billion then its fate will not be different from the current year target of Rs4398 billion.

The official said that the IMF did not talk about absolute tax collection figures but they always ask for jacking up tax to GDP ratio. The IMF argues that Pakistan's General Sales Tax (GST) was basically into shape of Value Added Tax (VAT) mode but different distortions were introduced with passage of time that had altered its basic shape. "The IMF asks to remove these distortions in shape of tax exemptions provided to elites capture," said the official.

Mehtab Haider