

Reforming Pakistan's tax system

Prior to taking oath as the country's Prime Minister Imran Khan consistently maintained that it was the dishonesty of previous administrations that accounted for the appallingly low tax to Gross Domestic Product (GDP) ratio and that his tenure would be marked by Pakistan reaching its potential tax collections. Potential revenue collections as per a recent World Bank publication titled Pakistan Revenue Mobilisation Project, would reach 26 percent of GDP, if tax compliance were to be raised to 75 percent, which is a realistic level of compliance for lower middle income countries. With less than seven weeks remaining for the end of the current fiscal year the revenue shortfall has been projected at around 400 to 450 billion rupees for the year which would, as estimated by the International Monetary Fund (IMF) in a recent report, raise the budget deficit to the unsustainably high 7.2 percent, an estimate based on existing taxes remaining unchanged.

Given that the Fund is currently engaged in negotiations with Pakistani authorities, its focus is on reducing the deficit through raising existing taxes, which would generate immediate results - a rationale that many argue is responsible for the government's recent decision to raise the rates on all petroleum products (excepting petrol which witnessed a 5 percent decline in general sales tax). A better option would be to reform the tax structure and make it more equitable and non-anomalous however this is a medium- to long-term process. In this context, it is relevant to note that Syed Shabbar Zaidi, who has been appointed as the new chairman of Federal Board of Revenue (FBR), stated on a programme on Aaj television that the government must focus on reforming the tax structure rather than focusing on process if it wants to achieve its objective of developing a tax system able to generate enough resources to reduce the country's dependence on borrowings.

Subsequent to forming the government at the centre the PTI administration separated FBR's administration from policymaking conferring the latter to the Finance Division last year; however by the end of the first week of March, the Prime Minister, while addressing the eleventh All Pakistan Chambers President Conference stated "Reforming FBR is essential. Until that is done we will not be able to meet our expenses. This is why we will try our best [to fix] FBR and I assure you [the business community] that I've been constantly having discussions and meetings with Abdul Razzaq Dawood and Asad Umar on how to generate revenue and make FBR a business-friendly institution. But I should also tell you this: if we realise that the FBR cannot be fixed, we will create a new FBR. This is because Pakistan's survival is linked to it. It's not about our liking or disliking; if our tax collection authority does not function properly, it could lead to a security risk. No nation that relies on loans can maintain its pride and independence."

Be that as it may, there is evidence to suggest that more and more governments are focusing on developing a culture of taxation which is defined by Pakarang Chuenjit in the Journal of Population and Social Studies volume 22 dated January 2014 as: "a phenomena encompassing the values, expectations, and behaviours which are embedded in the relationship between taxpayers and tax collectors... The patterns of culture of taxation can be observed and investigated through symbols, signs and the actions of the players in the tax system...previous studies on the culture of taxation have been concerned with taxpayers, especially compliant and non-compliant behaviour, and the determinant that affect these behaviours. Nevertheless, the culture of tax collectors' enforcement has not been studied as much."

It is significant that Syed Shabbar Zaidi stated after his appointment was announced that he would try to end the trust deficit between the taxpayers and the collectors. For him to succeed he must commission a study on Pakistan's tax culture prevalent in different taxes notably income tax as well as sales tax, the two largest revenue generators for the government. It is indeed a challenge to raise tax to GDP ratio; however, one hopes that it is a challenge that is met head on by Shabbar for without it Pakistan would continue being a perennial IMF borrower.