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FBR seeks downward revision of collection target

ISLAMABAD: The Federal Board of Revenue (FBR) has reviewed its revenue collection position and conveyed to Finance Division for a downward revision in overall target following a massive shortfall experienced during the first 10 months of this fiscal year.

Based on factors such as economic activity, growth in GDP, LSM and imports, top tax officials have requested the government to revise FBR's annual revenue target to Rs4,050 billion for 2018-19 from the budgetary target of Rs4,398bn – a reduction of Rs348bn.

"We have also shared this data on revenue collection and possible shortfall with the visiting International Monetary Fund team as well," a senior tax officer told Dawn on Wednesday.

The government had projected FBR's revenue target for 2018-19 at Rs4,398bn, requiring an increase of 14.4pc over the collection of Rs3,844bn the previous year. So far the growth in revenue collection remains on average at 3pc.

The FBR has already reported a shortfall of Rs356bn in 10MFY19.

Documents seen by Dawn show that FBR listed three major factors for gap in revenue collection during the 10-month period. The first and foremost is of taxes taken in advance from major taxpayers last year to the tune of Rs400bn. "We have adjusted almost 60pc of the advance taxes of last year during these 10 months," the document says.

Besides, the blocking of refund has also been used as a tool to show higher revenue growth figures in the past. The FBR gave a briefing to the IMF team about the situation, with suggestions on how the shortfall was recorded in the past 10 months due to policy measures amounting to Rs337bn.

In the briefing, the FBR pointed to an erosion of the tax base due to large cuts announced in the last budget of PML-N government in April 2018, as well as the Supreme Court's decision to suspend levy on mobile phone cards.

Last June, the Supreme Court of Pakistan had suspended deduction of taxes on top-up of prepaid cards by service providers which was revived last week. The revenue lost due to this measure amounted to almost Rs55bn during 10MFY19.

The FBR expects to pocket a few billions in May and June through the restored tax.

Also, the government's decision to slash sales tax on petroleum products has cost the exchequer almost Rs96bn with full-year estimate. The pre-election measures have additionally contributed to the revenue shortfall in 10 months of this fiscal year.

Moreover, relief given to the salaried class has led to a decline of Rs50bn in income tax collection shortfall, followed by Rs80bn from contractions of development budgets at the federal and provincial levels during the period under review. The import compression to control the rising current account deficit also led a decline of Rs16bn this fiscal year.

Interestingly, FBR has also reported that adjustments of tax amnesty announced last year contributed a revenue shortfall of Rs40bn, as per the document.

The third point raised is that FBR's revenues are dependent on economic activities and growth in GDP, LSM and imports and fluctuations in these indicators affect revenues, both directly and indirectly. During the fiscal year, national economy faced various challenges which did not allow the macroeconomic indicators to grow as per the forecasts made at the time of budget 2018-19.

GDP growth is expected to remain at 2.9pc against the targeted 6.2pc while inflation is expected to rise to about 9pc in FY19. Moreover, contraction in imports, underperformance of major kharif crops, monetary policy tightening, exchange rate adjustments, reduction in Public Sector Development Programme spending and regulatory measures have impacted domestic economic activity.

Consequently, tax revenues have also been impacted negatively.

As per the State Bank of Pakistan's Second Quarterly Report for 2018-19, manufacturing activity continued to decline as evident from a contraction of 1.5pc during H1FY19, compared to 6.6pc growth in same half last year.

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