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Avant-garde budget proposals – I: Growth, taxes & equity

The budget for fiscal year 2019-20, the first of Government of Pakistan Tehreek-i-Insaf (PTI), is expected on May 24, 2019. Every year before the announcement of annual federal budget-which has become an official ritual-plethora of tax proposals are received by the Federal Board of Revenue (FBR) from trade and professional bodies, tax bars and industry's representatives. For the last many years, FBR itself has been soliciting budget proposals by placing detailed guidelines on its website. However, each year the Finance Bill proves to be a hopeless document-containing meaningless amendments in tax codes, imposing more and more burden on the existing taxpayers-especially through cumbersome withholding of taxes-with no policy shift to promote business, facilitate existing taxpayers and bring the untaxed sectors/persons in the tax net. This series will run till the announcement of budget to present some evocative changes in our tax system that can boost business, in particular export sector, to ensure accelerated economic growth leading to enhanced taxes for the government to overcome fiscal deficit and overcome imbalances on external account.

Taxation in Pakistan is oppressive, lopsided and counterproductive-there is only 2% of corporatization of total business. By heavily taxing corporate sector vis-à-vis firms and association of persons, FBR has been encouraging undocumented sector. We have about 95,000 companies registered with Securities & Exchange Commission of Pakistan (SECP) out of which return filers are less than 40,000 as per Tax Directory for tax year 2017. The annual addition is less than 10,000, whereas in countries like Malaysia and Turkey having much less population than Pakistan, the number is in much higher with impressive annual growth. If we want to move from undocumented economy to transparent corporatized sector to achieve rapid growth, the government must reduce corporate rates to 20% and tax firms and other non-corporate business entities at a higher rate of 30%.

Taxation should serve as a catalyst for industrial expansion and economic growth. In Pakistan, the ill-directed, illogical, regressive and unfair tax regulations are causing a dampening effect on the industrial and business growth. The sole stress on meeting revenue targets, without evaluating its impact on the economy, has crippled our trade and industry, especially since we have started submitting completely before the dictates of the foreign donors. Had the successive governments concentrated on economic growth and industrial expansion, there would have been consequential substantial rise in taxes. It is impossible to enhance revenues with stagnation in economy, and over-taxing such economy, as has been done in Pakistan-it has in fact destroyed our tax system as well.

The priority of our economic managers have been achieving revenue targets, fixed ambitiously every year in utter disregard of how economy is actually behaving or at the dictate of International Monetary Fund (IMF). This is the main problem of tax system. By fixing revenue targets in isolation and without making necessary efforts to improve productivity and economic growth, Pakistan has been forced into a quandary, where it can neither afford to give any tax relief package to the trade and industry [due to growing fiscal deficit] nor can it achieve a satisfactory level of economic growth [due to retrogressive tax measures]. This is a vicious circle which has ensnared our policymakers. They will have to find ways and means to come out of this tangle to make Pakistan an economically viable and secure place which can attract investors. In a country where there is no security of life or property, notwithstanding the availability of a host of tax benefits and other incentives, investors would never come forward.

FBR, apex administrative revenue authority, has been single-handedly destroying Pakistan's trade and industry by resorting to discretionary powers [Statutory Regulator Orders (SROs)], withholding undisputed refunds payable to the taxpayers, making excessive tax demands and recovering the same by freezing the account even before the order by Tax Tribunal, resorting to all kinds of negative tactics and highhandedness to meet its budgetary targets. Such actions of the tax machinery are detrimental for business and industry and resultantly, FBR not only has failed to tap the real revenue potential but has remained unsuccessful in meeting even many times revised targets for the last many years. Besides, there is perpetual increase in our fiscal deficit and debt burden.

There cannot be two opinions about the complete shifting of our economic priorities. We, as a nation must concentrate on increasing our productivity, efficiency and economic growth, which alone can ensure more revenues for the State. The main cause of our pathetic economic situation is existence of inefficient, corrupt, repressive and criminal governments/institutions, which do not give a damn for the welfare of the common people. Successive governments' onerous tax and regulatory policies on the dictates of the foreign masters have pushed millions of people below the poverty line. We will have to move quickly and decisively to reverse this trend by restoring Pakistan's undeniable geo-strategic and business competitive position in the region. There is an urgent need to take necessary and tough decisions to make Pakistan a respectable place to live, work and invest.

We are, therefore, not proposing cosmetic changes in the Income Tax Ordinance 2001, the Sales Tax Act 1990, the Federal Excise Act, 2005 or the Customs Act, 1969. On the contrary, we are concentrating on key areas where paradigm shifts are needed in structural and operation level to ensure not only more tax revenue for the State but also business growth, social equity and fairness so that honest taxpayers are not disillusioned-presently FBR is extending concessions, immunities and amnesties to dishonest non-compliant people engaged in trade, business and industry.

TAXPAYERS' BILL OF RIGHTS

The Government, before imposing any new obligations on the taxpayers, must restore the confidence of taxpayers by immediately promulgating a Taxpayers' Bill of Rights, as was done by a number of countries including the USA and UK in the 1980s.

- The provisions of the Bill must:-

(a) Safeguard and strengthen the rights of taxpayers.

(b) Ensure equality of treatment

(c) Guarantee the privacy and confidentiality of their declarations

(d) Provide right to assistance by State in tax matters

(e) Guarantee unfettered right of appeal through an independent appellate system and alternate fast-track administrative dispute resolution system.

ASSIGNMENT OF TAX

Assignment of a tax means transfer of taxation power from a higher level to a lower level government. Taxation power includes the following: right to levy tax, collect tax, and appropriate proceeds from the tax. Thus, there can be three interpretations of assignment of a tax. Firstly, higher-level government may levy and collect a tax but hand over the entire proceeds to lower level governments. Secondly, the higher-level government may levy a tax but allow the lower level governments to collect it and retain fully the proceeds therefrom. Finally, the higher-level government may transfer a tax to lower level governments, a situation which defines assignment of a tax in its strictest sense. All provincial governments are violating the command of Article 140A and not devolving political, administrative and fiscal powers to elected local governments.

In the Pakistani scenario, the exact opposite has happened. The levy of presumptive taxation by the federal government and no powers to local bodies to raise funds for providing education and health at grass root level have denied the fundamental rights of the people. The provinces enjoy exclusive right under the Constitution to levy taxes on services within their respective physical boundaries. The federation blatantly encroaches upon their undisputed right by levying tax on services on presumptive basis-this is in substance indirect tax-under various sections of the Income Tax Ordinance, 2001. Such taxes are not taxes on income, which the federal government is empowered to levy under item 47 of the Federal List. Generally, the purpose of tax assignment is to augment the resources of lower level governments. The assignment of tax may be conditional. Thus, it may be obligatory on the part of a lower level government to levy the tax assigned to it. Not only this, the lower level government may not have power to alter the basic structure of the assigned tax. It may enjoy flexibility in fixing the tax rates within a minimum and maximum range prescribed by the higher-level government.

There is an urgent need in Pakistan to reconsider the equitable distribution of fiscal and taxing powers among federation, provinces and local governments. True provincial autonomy can only be guaranteed if assignment of tax principle is followed in letter and spirit. Establishment of local governments is a constitutional obligation [Article 140A] elections and asking them to dislodge the District Management, provincial autonomy but all the four provinces and federal government have failed to fulfil this command. Let the provinces have exclusive right over their resources and finances and they must transfer taxes to local governments so that grass root democracy and funds for public services can be utilised and guaranteed.

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