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Talking taxes

Rs5.5 trillion – this is the magic number the FBR will need to hit in 2019-20 to meet its new tax collection target. The tax numbers for the next budget were presented in a joint presser this past Saturday by Finance Advisor Hafeez Sheikh and new FBR Chairman Shabbar Zaidi. The scale of the challenge is significant. The proposal involves a jump of around 36 percent in tax collection compared to last year. There are two major questions to address: can the FBR do it? And how will such an increase impact the economy? The dismal performance for 2018-19 shows that the FBR has not been up to the task. The FBR chairman did not seem confident that the target could be met – but he did speak about how they intend to meet the challenge. The three major changes on the cards are: removing tax exemptions from the export sector, increasing GST, and reducing the income tax ceiling. In addition to this, the government is planning to put more items on the list for excise duty, increase mobile package taxes, increase tax on tobacco and push up other tax rates to reach the target. Increasing the tax net itself is not critical to achieving the numbers – which is the most worrying part.

The FBR has answered this criticism by presenting the current amnesty scheme as one aimed at documentation, rather than short-term tax collection. Once more parts of the economy are documented, the tax collector believes it can do a better job of collecting tax. But numbers show how poorly the FBR does despite documentation. For example, while around 340,000 individuals and businesses are registered to pay sales tax, only 43,000 of them actually file income tax returns. Similarly, the number of companies registered with the SECP are known, and it should be straightforward to take action against any not paying tax. Documentation is a crucial issue, but it cannot be held up as an excuse for the failure of the tax apparatus to bring more people and companies into the tax net. The FBR says it is doing its best to clear misconceptions about the amnesty scheme, but its real focus is ensuring compliance with tax laws. Tax evaders must be made to pay tax; carrots have been offered for too long, it's time to try the stick. But one must also worry about the impact of siphoning off around 36 percent more tax from the economy into keeping the government afloat at a time of low economic growth. Increasing taxes through indirect means, rather than collecting more income tax, might do more damage to the economy. It would appear that the government is merely interested in meeting the numbers, rather than structural reform in the tax collecting body. This might not be the best long-term option for the economy.

Editorial