DAWN

18th November, 2019

Khaleeq Kiani

# Fixing the FBR

REVENUE reform is in business again. It was on top of Prime Minister Imran Khan's agenda after taking over the government. "I will start with the FBR," he had said in his first speech to the nation as prime minister as he promised to set things right.

Within the first 100 days, he approved the separation of revenue policy from administration. This was soon reversed. Federal Board of Revenue (FBR) Chairman Syed Shabbar Zaidi looks after both jobs now as the government targets Rs5.503 trillion revenue this year.

Nothing moved next on the promise that internal revenue audit will be placed directly under the prime minister and be fully resourced unlike in the past 18 years. In fact, some whistle-blowers prompted by Prime Minister Khan's preaching went public against internally entrenched weaknesses and mafias but were taught exemplary lessons.

Former Prime Minister Shaukat Aziz made a tax policy shift from audit to self-assessment, and since then the audit corps remained ineffective and understaffed.

The overall revenue reform project has struggled so far. Former FBR chairman Dr Jehanzeb Khan was removed from the post once he finalised the reform's blueprint in consultation with the World Bank — the project financier — amid a record revenue shortfall in the last fiscal year.

*The government has given an undertaking to the lending community to achieve an increase of 4-5 per cent of GDP in tax revenues by the end of the programme*

A recent move to create the Pakistan Revenue Authority (PRA) in place of the FBR, and the changes it envisaged faced a severe backlash from within the top tier of the revenue machinery. We have had enough of such reforms under previous loan programmes like TARP (the Tax Administration Reforms Project) and even before those that changed the Central Board of Revenue to the Federal Board of Revenue without delivery on buzzwords like fairness and equity.

The government became nervous again since a revolt like this could jeopardise the commitments given to international lenders on big revenue targets. The four-month shortfall had already gone beyond Rs182 billion.

The prime minister had to personally intervene and give assurance to grade-22 and 21 officers that the tax machinery would be reformed in consultation with all stakeholders. "We want to get serious proposals from you as per your experience to make the tax system more efficient," he told officers.

Mr Zaidi, the FBR chairman, was humbled by the explicit statement of the prime minister that "reforms in the FBR will be undertaken after taking FBR officers on board".

Consequently, he announced that 'reorganisation timelines' as given in the October 3, 2019 letter "shall be put on hold. Meanwhile, we at FBR shall strive to collect optimum revenue".

What followed the next day was a notification for setting up a steering committee for restructuring FBR, and four sub-committees. The steering committee is led by Mr Zaidi and comprised six other members, four of them heading the sub-committees.

The members of the steering committee include Member Administration Jausheen Javed, Member Customs Policy Javed Ghani, Member Internal Revenue Seema Shakil, Member Customs Operations Dr Jawwad Agha, Member Internal Revenue Policy Dr Hamid Ateeq and Member Chief Operations Talha Aziz. Four of them would head sub-committees on re-organisation, human resources, field formations and automation.

They will first work out reforms in sub-committees and then jointly approve them as part of the steering committee — apparently a conflict of interest. The actual target of reforms would now suggest what should be the reforms. Copy-pasting has already begun and the FBR is being replaced with the PRA in the revised draft legislation.

Stakes are high as the PTI government has signed agreements with international lending agencies under the umbrella of IMF's three-year programme that promises about $38.6bn foreign inflows in 39 months from all lenders.

That means failure is no more an option. We not only have to meet FBR's Rs5.503tr revenue collection target, but we must also nearly double it to Rs10.51tr by 2023-24.

In other words, the authorities must increase federal revenues by 1.7pc of GDP during the current fiscal year to 13.1pc and then jack it up to16.2pc of GDP by 2023-24. This has to be achieved by improving the tax-to-GDP ratio from 10.8pc last year to 12.4pc during this fiscal year.

Under the IMF programme, the FBR has to increase its revenue collection to 15.3pc of GDP, an increase of 4.5 percentage points as compared to what it is now. GST would be fully reformed as value-added tax in true global definition.

The government has given an undertaking to the lending community that Pakistan's adjustment strategy will be "primarily revenue-based, designed to achieve an increase of 4 to 5 percentage points of GDP in tax revenues by the end of the (IMF) programme".

This will be done through simplifying collection and broadening the tax base, harmonising and coordinating inter-provincial GST and eliminating all but for basic foods and medicines, GST exemptions and preferential rates, and transforming the GST into a broad-based VAT over time.

Further strengthening of taxation on agricultural turnover or income by provinces, effective real-estate taxation, ensuring equivalent taxation of all sources of income and elimination of distortionary withholding taxes are some other commitments under the IMF programme.

Given the fragmented nature of our tax administration, we will create a new semi-independent national tax authority to collect the main revenue sources. As a structural benchmark, the government was under obligation to issue licenses for the track-and-trace system for excise duty on cigarettes by end-September 2019 (already missed) and implement the system by end-March 2020.

To compensate, the FBR chief has now announced that the tax-collecting authority will be instituting within this financial year a fully automated track-and-trace system for at least four major sectors of the industry, in addition to tobacco, which is already in process.

"The industries under consideration are aerated beverages, sugar, cement and fertiliser," he said.