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FBR fear of traders

THE Federal Board of Revenue appears somewhat indecisive over the implementation of an array of measures introduced in the current budget to document domestic commerce by effectively taxing the flourishing wholesale and retail sector. It is, for example, delaying the enforcement of the key CNIC condition on purchases exceeding Rs50,000. Now a report indicates the board's willingness to introduce a turnover-based fixed tax regime for small to medium traders, instead of taxing them on the basis of the size of a shop, and the nature and location of a business. The report quotes the FBR chairman as saying that the government could accede to the traders' demand provided it gets the IMF's prior approval during the first quarterly review of Pakistan's performance against the benchmarks set for its \$6bn loan, which will get under way on Monday.

The tax authorities' reluctance to implement the measures to bring wholesalers and retailers into the tax net is quite understandable.

They are afraid of the shutter-down power of the country's large trading community, which has consistently refused to become part of the formal economy since the introduction of consumption tax in the late 1980s. The traders brought the powerful military dictator, Gen Pervez Musharraf, to his knees in 2000 and forced him to withdraw a decision to register them under the general sales tax law. Political governments have never found enough will or courage to tax wholesalers and retailers who contribute around 18pc to the nation's economy but pay less than 1pc of total FBR taxes.

The traders do not want to pay income tax, sales tax or any other tax and have always resisted any effort that would help the government track their undeclared incomes and help document the economy. This is perhaps the only issue that unites the otherwise politically fragmented community. Each time a government makes a move to tax them, they pull down their shutters and take to the streets to get a free pass. Several rounds of talks between the FBR and traders since the announcement of the budget have ended in a deadlock and the delayed enforcement of taxation proposals because of threats of a countrywide strike. If the government thinks it can still persuade traders through negotiations to become part of the documented economy, or buy time to divide them, it is mistaken.

And the rollback of the documentation effort is definitely not an option because it will jeopardise the government's plan to achieve the targeted tax revenues and document the economy, especially at a time when the country faces a real threat of a downgrade from FATF's 'grey' to 'black' list in February. It will have to enforce the measures to bring traders into the tax net sooner or later. The sooner it does the better it will be for the flagging economy.