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Mehtab Haider

Economists ask FBR to remove trust deficit

ISLAMABAD: Economists, former bureaucrats and technocrats on Tuesday asked the FBR to remove trust deficit on account of creating hindrance for boosting economic activities because monumental targets of Rs5.5 trillion could not be achieved if slowdown of economy persisted in the current fiscal.

It was the crux of discussions held here at a special round-table on 'Mechanism for Effective Revenue Collection in Pakistan: Ways and Means' organized by Islamabad Policy Research Institute (IPRI) on Tuesday. They were all unanimous for recommending to the FBR to reduce the tax rates, simplify tax procedures and allow businesses to grow if it wanted to fill the national kitty.

The round-table was chaired by Dr. Waqar Masood Khan, former Federal Secretary for Finance Division, while three former chairmen of the Federal Board of Revenue (FBR) Nisar Muhammad Khan, Tariq Bajwa and Ali Arshad Hakeem, apart from Dr. Manzoor Ahmad, Pakistan’s former ambassador to the World Trade Organization, were among the distinguished speakers on this occasion.

The participants emphasized that taxation policies are part and parcel of the economic edifice of modern economies. Through the correct utilization of revenue generated by virtue of efficacious taxation policies, the aim is to establish sound governance and to prevent a scenario where an economy buckles under bloated debt. Contextualizing the matter in the case of Pakistan which has not had primary surplus for many years, there was a consensus among the participants that revenue collection is the remedy for several economic maladies that beset the country, including poor tax-to-GDP ratio and debt servicing which have marred the already stunted economy. Good governance, uninterrupted social service delivery, robust infrastructure development and controlled inflation can materialize through broadening the tax base.

Fiscal deficit was described as the mother of all evils in the case of Pakistan. Speakers highlighted that the current government is trying to slash its expenditure, but revenue collection needs to be improved since the last fiscal year alone witnessed 1 per cent decline in revenues, and targets set for growth are no close to materialisation. In addition, the speakers also highlighted that direct taxes make up only around 34 per cent compared to indirect taxes which are not only generally regarded as regressive, but also contribute to low economic growth since they lead to multidimensional poverty with the middle and lower strata of society at its receiving end.

Given Pakistan’s Ease of Doing Business ranking at 173 out of 190 countries, it was stressed that foreign investment cannot be brought into the country. Ease of doing business can be significantly enhanced by making tax policies more simple, providing a level playing ground especially to small and medium-sized enterprises and cutting down on tariffs which can also make goods competitive in the international market.

Analogies were drawn to Chile, Turkey and Vietnam which faced similar challenges of economic growth and tax collection, but were able to bring about a major turnaround to the extent that at present Vietnam alone has exports nearing USD200 billion. Along with this, to improve revenue collection, Pakistan's cash economy must be capitalized. Agriculture and the service sector ought to contribute much more to the tax base. Concessionary tax cuts should not be only confined to specific industries, rather the growing internet economy which has the potential to add USD100 billion to Pakistan's economy must be included as well.

Appraising the performance of FBR, the speakers stressed upon the institution's capacity constraints to meet the 5,500 billion tax target largely because the Board has not evolved in line with Pakistan's financial policies.

It was suggested that the FBR needs to introduce a Fiscal Register for taxpayers and that there is a need for officers to be abreast of modern methods of tax collection. Another recommendation put forward was to conduct data mining in order to locate new taxpayers with the assistance of Nadra.

The speakers recommended that the modus operandi of tax registration ought to be streamlined and made hassle-free by the FBR in order to address trust deficit between taxpayers and tax collectors or the government for that matter. The government also needs to modernize the whole process of tax collection and tax refunds, along with limiting discretionary powers of tax collector. When the average Pakistani is confident that their tax is not slipping through the crevices in the system, and that they will reap the benefit in the shape of improved infrastructure, healthcare, employment opportunities, there will be behavioral and attitudinal changes in the public, it was stressed.

Enhancement of tax-to-GDP ratio, which currently stands at around 10-13 per cent, increased revenue collection free of corruption, widening of tax base were notified as key areas of interest for the purpose of redressing Pakistan's shrinking economy. It was concluded that such measures will lead to an environment which will be the stimulus for economic revitalization and that Pakistan must make the most of the inflection point as manufacturing units are moving away to cheaper markets.

The round-table also included Ayaz Asim, Chief Financial Officer APTMA; Dr. Bushra Yasmin, Chairperson Department of Economics, Fatima Jinnah Women University, Dr. Saima Shafique, Head Department of Economics, National University of Modern Languages, and Dr. Muhammad Ali Syed, Assistant Professor, Bahria University. Dr. Karim Khan, Mr. Fuzail Zubaid Ahmad, Mr. Zil Ur Rehman Qureshi were also amongst the participants.