

Editorial

Growing tax base

ACCORDING to data presented to Prime Minister Imran Khan by the tax authorities, more than 780,000 people have filed income tax returns for the tax year 2018 who were not previously doing so. This is probably the largest jump in the number of new return filers in over a decade, since the number is more than triple that of such individuals in the preceding year. It shows that a culture of filing returns is gaining impetus. Of course it took eight extensions in the filing deadline, which finally ended well into the next tax year for the first time in a decade, coupled with an amnesty scheme that was fuelled by at least three appeals for participation from the prime minister himself, to make this happen. Such a vigorous push behind tax compliance may not be possible year after year, and the real test will now be to sustain this momentum without such extraordinary measures.

Beyond compliance, there is the matter of actual revenue collected. The entire exercise of getting more people to file returns has yielded incremental revenue of Rs2.5bn, which is paltry by comparison to the targets and shortfalls facing the FBR. Clearly many of those who have filed returns in the tax year 2018 were those who were already paying their taxes through deductions at source, but were not filing returns thinking it to be unnecessary since the tax had already been paid. The real test of base broadening is when those who are neither paying nor filing are persuaded to become compliant. The FBR chief himself says that the services sector must bear the brunt of the base broadening exercise, and he is right in this. But getting retailers, transporters, professionals, schools and beauty parlours and other small- and medium-sized enterprises to register with the tax authorities, declare their incomes and turnovers, and start filing returns and paying their share of taxes, is the real challenge.

Efforts are under way to meet that challenge. Already the FBR has sent out hundreds of thousands of notices to those enterprises that have industrial or commercial utility connections but are not registered with tax authorities. FBR officials are also visiting markets to encourage participation in the fixed tax regime. And on top of that, a new front has been opened against smuggled goods, though how they proceed on this remains to be seen. With these efforts, the FBR is probably the most vigorous government department in action these days, upsetting the status quo in ways it has probably never done before. But failure to collect actual revenues, measured in rupees and not number of filers, means more mini-budgets — which means more uncertainty. Despite the increase in the number of filers, the Rs64bn shortfall in revenue collection in July and August continues to hog the limelight.