BUSINESS RECORDER
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RECORDER REPORT

FBR's failings

While the bosses in the Federal Board of Revenue (FBR) are generally quick to blame everybody else for their failure to pay full amount of their taxes, their own record in collecting taxes in full is also less than perfect. According to the latest audit report of the Auditor General of Pakistan (AGP) for the year 2017-18, variations of Rs 201.4 billion were unearthed in the figures of tax receipts which were referred to as "evasion" in the audit report on the accounts of FBR. The AGP unearthed a loss of Rs 22.2 billion due to non-realisation of sales tax on subsidy from government on the sale of electricity and another Rs 8.45 billion due to non/short realization of sales tax due to difference/concealment of sales declared in income tax returns/sales tax returns. Other losses included a loss of Rs 14.7 billion due to non-charging/non-realisation of sales tax: another loss of Rs 10.5 billion due to inadmissible sales tax adjustments/exemptions and a loss of Rs 9.88 billion due to non-recovery of adjudged dues. The inadmissible adjustment of input tax led to recovery loss of Rs 7.4 billion due to non-charging of sales tax and Rs 1.2 billion due to non-registration of taxpayers. The non-realisation of federal excise duty also led to a loss of Rs 7.7 billion. Under the income tax, a revenue loss of Rs 2.4 billion was recorded owing to non-imposition of minimum tax on the income besides a loss of Rs 13.29 billion in revenue due to concealment of income or assets. The short levy of super tax also led to a revenue loss of Rs 11.8 billion and another loss of Rs 6.7 billion due to non-apportionment of expenses between final and normal tax regimes. Other losses were due to incorrect assessment of income tax (Rs 11.2 billion), application of incorrect rate of tax (Rs 9.3 billion), non-recovery of government dues (Rs 4.8 billion), payment of unlawful refunds (Rs 4.1 billion) and misclassification/undervaluation of imported goods (Rs 16.8 billion).

The AGP audit report on the working of the FBR tells a very disturbing story about the performance of the tax collecting agency of the country, especially at a time when Pakistan is faced with unproductive and rigid expenditures on the one hand and lower tax receipts on the other. Unfortunately, the country's revenue resources are so low that these are not even enough to avoid a deficit in the primary balance of the budget (net of debt servicing) with the result that expenditures on development projects and social sectors have to be met from a variety of domestic and external sources that add to the stock of overall debt every year. Development expenditures, in fact, have to be pruned almost every year to meet a given target of budget deficit. Talking in quantitative terms, the report of the AGP tells about a huge loss in revenues due to the shenanigans or inefficiencies in the FBR as, according to the auditor general, FBR should have collected Rs 201.4 billion more than the actual tax collections of Rs 3843.8 billion during 2017-18. In other words, such a huge amount is pilfered from the government exchequer almost every year. Obviously if this amount was added to the total revenues every year, this money could either be used for productive expenditures or for lowering the stock of debt. Besides, since most of the budget deficit is financed through borrowings from the banking system, higher level of tax receipts could have released more resources for private sector credit, enhanced productivity of the economy, created more employment and reduced the rate of inflation. As this pilferage or loopholes have to be removed for the larger interest of the economy, the AGP has also recommended various measures for the recovery of evaded taxes along with fixing of responsibility. The loss of tax revenues could be due to corruption, lack of competence or carelessness in the FBR but it is the responsibility of the higher-ups of this organisation to proceed against the staff who are known for corrupt practices under the relevant disciplinary rules and to train those who are not fully well-versed with the latest techniques or practices of collecting taxes.

Incidentally, it may be added that this is not the first report to highlight such lapses on the part of the FBR. According to a document released by the World Bank only a few weeks ago, Pakistan has a great potential to raise its tax receipts without imposing new taxes. In fact, the amount of tax receipts can reach as high as 26 percent of GDP if tax compliance could be raised to 75 percent which is a reasonable level of compliance for lower middle income countries. If this level of compliance could be reached, most of our fiscal worries would be over but this could only be done by removing the current weaknesses of the FBR and concentrating our efforts more on tax compliance. At least, the present government should try to make reasonable progress in this direction as all the loopholes cannot be plugged in one go.