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Upcoming mini-budget: Government to reduce duties, open up imports

ISLAMABAD: Knowing that any additional taxes will have far-reaching 'disastrous effects' on the economy, the government is considering reducing Regulatory Duties (RDs) and Additional Customs Duty (ACDs) on certain items in the upcoming mini-budget.

A top government official told The News that reduction in RDs was under consideration. Any other additional taxes, according to the FBR, would have disastrous effects and would probably cause more loss than gains. If the petroleum products' GST rate is proposed to be hiked, its consumption is already down by 20 percent. The tobacco rate increase will also be counter-productive because its volume has so far shown a decreasing trend this fiscal year.

There are two possibilities: one, to open up imports, as it could yield results on increased revenue collection; second, the viable option is to make effective enforcement.

The CNIC condition on purchases of over Rs50,000 has become effective from February 1. The official conceded that there were hundreds of items on which the RDs and ACDs were imposed at different rates so it was under consideration to present a list of items to the visiting mission of the IMF and then both sides can agree on the number of items where the RDs could be reduced through a review of the upcoming budget. The review of the budget under Public Finance Management (PFM) could be tabled in Parliament by the end of the current month.

Top official sources confirmed to The News that import compression had touched around $6 billion, resulting in losing revenues substantially so the government was now considering easing out imports by rationalizing import tariffs in shape of reducing RDs and Additional Customs Duty in a gradual manner. This step is aimed at opening up imports so that revenue collection could go up and could also help to kick-start sluggish economic activities. The IMF's review mission is scheduled to hold a review of article IV talks with Pakistani authorities from Monday (tomorrow). The Mission will stay in Islamabad for 11 days for reviewing performance under $6 billion Extended Fund Facility (EFF) "So restrictions on imports through cash margins could be lifted. The reduction or abolition of RDs and ACDs is also on cards for this upcoming mini-budget," said the official.

Meanwhile, the FBR stated on Saturday in its official statement that the provisional collection figures for January 2020 is Rs320 billion which is 17% higher than the last year. The figure is likely to increase due to book adjustments and late reporting by offline branches of NBP. The overall numbers are also showing a healthy growth of around 17%. It is wrong to assume that tax collection is only growing at the speed of nominal GDP growth.

In fact, the current tax base is dependent on the growth of large scale manufacturing, imports and nonfood, non medicine, nonshelter, and high-end consumption inflation as well as on wage rate increases and nominal increase after depreciation corporate profits and not on nominal GDP. All these indicators are going through the macroeconomic adjustment phase and hence tax growth of 17% represents a huge turnaround by FBR in this fiscal year, the official statement said.

The last five years' data shows that FBR collected almost 50 to 55% of its taxes at the import stage. The import compression has brought growth in this component to almost zero. All the growth in taxes is now supported by almost 30% growth in domestic taxes which is an unprecedented growth number in the history of FBR. The officers and top hierarchy of FBR are almost working for 12 hours a day with extremely meager resources to maintain this healthy growth despite all odds.

The number of returns this year has shown a phenomenal increase of 40% over the same date last year which shows trust and faith of people for participation in this national cause. The number of returns for 2018 on 31.1.2019 was 16,45,828 which has increased to 23,42,642 on 31.1.2020 for tax year 2019 returns. The FBR is conscious of the fact that taxes are a by-product of economic activity and it does not want to hurt the economic activity through the evangelical pursuit of taxes.

The effort this year has been done in collaboration and with the active association of the business community and it is hoped that this cooperation will go on in the coming months. The FBR has also been very active in removing irritants related to exporters refunds and has issued an unprecedented amount of refunds this year. The total refunds issued this year stand around Rs120 billion as opposed to Rs65 billion last year. The FBR is all geared up to put in its best efforts for better revenue mobilization which is vital for the wellbeing of citizens of Pakistan, the statement concluded.