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Downward revision of revenue target: FBR estimates Rs4,450 bn collection in current fiscal

ISLAMABAD: The Federal Board of Revenue (FBR) has made a realistic assessment of possible revenue collection and estimated that it could fetch maximum revenues up to Rs4,450 billion till the end of current fiscal against the revised downward target of Rs5,238 billion.

With enforcement and full independence and additional taxation measures likely through a mini-budget, the FBR could collect another Rs200 billion but the tax authorities argued that additional measures might further squeeze the economic activities already touching the lowest ebb and witnessing persistent negative growth by the large scale manufacturing in the last several months.

The FBR would be facing a mammoth revenue shortfall of Rs1,100 billion with collection of Rs4,450 billion compared to initially envisaged target of Rs5,550 billion. If the possible revenue collection of Rs4,450 billion is compared with the revised target of Rs5,238 billion, then the possible shortfall is projected at Rs788 billion. The revenue collection projections shared by the Ministry of Finance with the visiting IMF team showed a worsening fiscal imbalance whereby the Customs side projected its collection of Rs50 billion less than the actual collection of last year. “The Customs Duty collection is estimated to go up to Rs650 billion in the current fiscal against initially projected target of Rs1,000 billion on eve of budget 2019-20,” said the official sources. With negative growth on Customs side owing to import compression, the whole burden has been shifted towards the Inland Revenue (IR) side despite that almost 50 percent collection is dependent on the import stage.

The FBR has informed the Finance Ministry and IMF team that according to its internal FBR assessment, the Inland Revenue Service (IRS) could collect a maximum Rs3,800 billion as Income Tax, General Sales Tax and Federal Excise Duty (FED) during the whole fiscal year.

The IMF document shows that the FBR took taxation measures to the tune of Rs730 billion for materializing its desired target of Rs5,550 billion on the eve of the last budget but now the top management of the FBR argued that out of Rs730 billion, the FBR had envisages collection of Rs100 billion through administrative efforts including Rs35 billion through Customs Duty and Rs65 billion as IR taxes. The Sales Tax and FED are yielding results but in case of Income Tax, the salary-related taxation and withholding of telecoms were providing revenues, and some other measures would start yielding results along with returns of the tax year 2020.

The FBR’s high-ups further argued that the GDP growth was less than projected and its volume was down in all major sectors: petroleum was down by 24 percent, tobacco 30 percent and the same goes for cement and some other sectors. The LSM growth is negative 6.5 percent which is neutralizing an increase in tax rates and expected revenues envisaged by the FBR at the time of the budget-making process, added the official sources.

Now it is not yet known if the IMF team has agreed to fix the revised downward target because it will all depend upon the overall fiscal deficit but there is especially focus on the primary balance target of 0.6 percent of GDP for the current fiscal year. So far, the Ministry of Finance had materialized surplus revenue balance for the first two quarters but in the aftermath of the yawning FBR revenue shortfall, the government will have to come up with Plan B by increasing reliance on the non-tax revenue target. “There are no easy choices on the fiscal front for the government and they will have to take tougher decisions ahead to keep the IMF programme afloat,” concluded the official.