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# Tax collection from debt investment up 85pc to Rs4.1bln in July-May

KARACHI: The Federal Board of Revenue (FBR) pulled in Rs4.147 billion on tax collection from banks' investment in government papers during the first 11 months of the current fiscal year of 2020/21, depicting a significant 85 percent jump year-over-year, due to higher tax rates, sources said on Saturday.

Tax collection on investment in government securities amounted to Rs2.25 billion in the corresponding period of the last fiscal year.

The sources in the FBR said the government, in the last budget, imposed 37.5 percent income tax on banks for making profits on their investment in government papers.

The sources said banks were earning huge profits on account of risk-free investment by banks in government papers. Profit from such government securities is in excess of 20 percent of total profit before tax.

Banks couldn't be bothered by higher tax rate as high interest rates used to offset the taxation impact.

However, the FBR sources said the current interest rate of 8 percent would adversely affect the revenue collection under the head.

The decline is already visible as tax collection of profit on debt from investment in government securities by banks declined 68 percent to Rs72.83 million in May. That compared with Rs225 million in the same month of the last fiscal year.

The investment in government securities was attractive and risk-free avenue for the banks before the outbreak of coronavirus.

State Bank of Pakistan slashed its benchmark policy rate by 525 basis points to 8 percent since March 17 in an emergency effort to offset economic impact of the novel coronavirus.

The lowering tax collection poses a difficult challenge for the government to meet its fiscal deficit target of 7 percent of GDP in FY2021 compared to the revised estimate of 9.1 percent this fiscal year.

The federal government has resorted to heavy borrowing from banks to meet budgetary financing needs since it restrained itself to borrow from the SBP during the current fiscal year under an obligation of International Monetary Fund's (IMF) loan program. Last year, IMF agreed to lend $6 billion to Pakistan under a 36-month extended fund facility (EFF).

The SBP's monetary aggregate data showed that the federal government borrowed Rs765.78 billion from banks through sales of market treasury bills and Pakistan investment bonds during the July 1 – January 20, 2019/20.

The government retired Rs2.9 trillion to banks during the same period of the last year.

The central bank said the government borrowed heavily from commercial banks this year to retire the SBP debt unlike last year when it had borrowed heavily from the SBP to retire commercial banks' debt.

"This shift can be traced to two major factors. First, the government had committed not to borrow from the SBP to finance its deficit under the EFF program. This commitment was limited not just to achieving zero quarterly borrowings, but also to refrain from rolling over the maturing SBP debt," it said in a report.

"Second, the commercial banks' own appetite for investing in government papers remained strong. In particular, their expectations of interest rates had peaked out, which led them to lock available liquidity in longer tenor government securities."