

FBR's shortfall

Reportedly the PM is rather happy with the idea that the mini budget has been averted. He called it a big success. But for how long will he continue to glow, as growth in FBR's tax revenues is remarkable – given the circumstances - yet far less than the expected performance.

At a time when earnings are rather squeezed, the FBR has managed to increase its direct taxes by 19 percent in the first eight months ending February 2020. That marks highest growth since 8MFY15, whereas in 8MFY19, growth in direct tax collection was actually minus one percent. This growth stems from nearly 20 percent increase in domestic direct tax collection, which has offset the decline in direct tax collected at import stage.

Likewise, the growth in sales tax collection is rather phenomenal; at 31 percent 8MFY20 has seen the fastest growth since FY12. This too is led by growth in domestic stage collection. Sales tax collected from domestic sources rose 35 percent year-on-year in 8MFY20, whereas that collected at import stage grew 16 percent. (Read Evaluating FBR's performance, Jan 29, 2020)

And while it's best to avoid cheerleaders until such time the FBR shares the details of new filers in terms of their contribution to total increase in tax revenues, there are reports that a decent number of new filers have been brought into the system. New filers into the system are always good thing; it's another thing that the FBR has not been able to put its analytics team as yet to make sense of the information provided by new filers.

Onto the targets. The remaining four months can be expected to post high double-digit growth, averaging about 25 percent each passing month. But that growth will be a false promise, because of low base effect which had tapered off in the last four months of FY19.

As a result, the FBR will still collect not more than Rs4816 billion in the most optimistic scenario or around Rs4450 billion in a realistic scenario. The former implies a shortfall of Rs422 billion; the latter about Rs790 billion. And that's when compared to the revised target of Rs5.2 trillion. Keep in mind that downward revision of FBR's target does not mean the government does not need those Rs300 billion forgone from the original budgeted number. (Read also BR Research's FBR's mid-term report card, Jan 3, 2020; How not to write FBR's revenue yearbook?, Dec 2, 2019; and Does Shabbar has a magic spell? June 12, 2019).