

First quarter of 2020-2021: FBR up against Rs300 to 400 bn revenue loss

ISLAMABAD: The Federal Board of Revenue (FBR) has estimated that it will be facing revenue loss of Rs300 billion to Rs400 billion in the first quarter (July-Sept) of next fiscal year, making it harder for the country to achieve the IMF's envisaged tax target of Rs5,103 billion in FY 2020-21.

With the wish to present a tax-free budget for financial year 2020-21, the possibility of mini-budgets cannot be ruled out in the next fiscal year, as the FBR may be forced to introduce taxation measures after first half (July-Dec) period of fiscal year 2020-21 in January 2021 to bridge its tax shortfall.

"If post-COVID-19 scenario persists resulting into halting of economic activities and partial lockdown, then the FBR's stimulation suggests that the tax machinery will face loss of Rs400 billion during the first quarter of next fiscal year 2020-21" top official sources confirmed to The News here on Sunday.

The FBR's working shared with Ministry of Finance showed that the FBR distributed its quarterly target to the tune of Rs1250 billion for each in first three quarters from July to March period while for the last quarter the revenue collection target was envisaged at Rs1,350 billion in order to achieve annual target of Rs 5100 billion as desired by the IMF.

The FBR had collected Rs 963 billion in first quarter (July-Sept) period of the current fiscal year. If severe lockdown continued then the FBR estimates suggests that the revenue collection might fall and could touch Rs 800 to 850 billion.

However, if economic activities restore, then the FBR might touch Rs950 to Rs960 billion, but there will be a shortfall in the range of Rs300 billion in second scenario. The FBR shared these estimates for incorporating into upcoming Economic Survey for 2019-20 that would be released just ahead of next fiscal year's budget.

This analysis will incorporate COVID-19 impacts on revenue collection for the current fiscal year and its lingering effects for the next fiscal year as well. When this reporter contacted FBR's former Member and renowned tax expert Shahid Hussain Asad, he said before 1995, Advance Tax was not accounted for as "current collection" rather it was accounted for next year in the collection of the year to which it related, and interest @ 6% was paid to the tax payers on this advance tax payment by Government of Pakistan. So the "Current Collection" used to be collection of current and arrears only except collection of withholding tax (WHT) on salary or presumptive tax regime (PTR) income.

In mid 1990s, the FBR made some changes in rules to account for advance tax as "current collection". Resultantly, now the FBR is depending heavily on advance tax

collection and has started pressurizing tax payers to make payment of advance tax even for more than one year.

It is now a major source of FBR collection. If old practice is revived, tax payers will be relieved of the pressure of FBR to pay “advance tax” for more than one year. The government may be advised to account for Advance Tax as collection of the year to which it actually relates.

This procedural will not have any adverse effect on revenue of FBR except that the advance tax will be accounted for as collection at the time of assessment rather than during the currency of the “Income year”.

As current heavy WHT regime is causing heavy refunds which the FBR is unable to pay, the number of withholding taxes should be reduced/ rate of all adjustable withholding taxes be reduced to 1% or less. This will make FBR show “Real Collection” against tax demands actually raised as a result of assessment and collected, he concluded.