

Redefined FBR role

Federal Information Minister Fawad Chaudhry while addressing a press conference stated that the government has decided to set up a Tax Policy Board (TPB), in line with Pakistan Tehreek-e-Insaf's (PTI's) vision and a long standing demand of the business community. He added that the Federal Board of Revenue (FBR) would only be required to collect taxes once the Board has been established and would not take any policy decisions though one would assume that as a member of the Board Chairman, FBR may provide valuable inputs as to the likelihood of meeting targets from any tax-related decision taken by the Board.

The provision for setting up a Board with the objective of separating tax policy formulation from tax administration is available in the amended Section 6 of the FBR Act 2007; however, it was never activated. It stipulates: "(Establishment of Policy Board) of the Federal Board of Revenue Act 2007, the Federal Government may establish a Policy Board to provide guidance in matters relating to the vision, mission, and values of the Board, and to provide policy guidelines in framing fiscal policy and in achieving goals and targets. The Policy Board shall consist of Members, including Minister for Finance, Chairman; Minister for Commerce, Member; Minister for Industries, Member; Minister for Textile Industries, Member; Minister for Privatisation, Chairman Senate Standing Committee on Finance and Chairman National Assembly Standing Committee on Finance would be Members and other members as specified in the FBR Act. Prime Minister can nominate any other member as per Federal Board of Revenue Act 2007."

It was reported on 20 August 2018, shortly after Imran Khan was sworn in as the country's Prime Minister, that the government was being advised to set up a TPB. On 29 September, the federal finance minister Asad Umar confirmed that the government intended to set up a board and assured the business community that it would have representation on the board. One would advise the government to ensure that private sector representation not be industry-specific, as that would generate charges of nepotism. Fawad Chaudhry added during the press briefing that TPB would include economic experts as well. Setting up a TPB may sound like a good plan but its effectivity may be constrained by the quality of recommendations made by its members and its ability to take advice from tax experts.

The question is whether the establishment of the TPB would add value to the existing structure. It is relevant to note that at present, the Ministry of Finance tables a set of taxation policy measures every year before the budget is finalized - that maybe recommended by the FBR and/or private sector concerns - for approval by the Cabinet before being submitted for approval by the parliament. The FBR compiles recommendations - its own and those proposed by various sectors/sub-sectors - and comments on revenue that may be generated/lost as a consequence of a specific tax proposal. In other words, the decision to impose/reduce/raise a tax or withdraw another rests with the government, which may decide to submit it for parliamentary approval or not. The FBR is mainly engaged in collection.

However, over time, FBR appears to have outsourced the bulk of tax collections to (i) withholding agents with around 75 to 80 percent of all direct tax collections now being collected by withholding agents; (ii) sales tax collections; and (iii) petroleum and fuel taxes as well as taxes on utilities. In other words, percentage tax collection by FBR has been declining over time.

The National Tax Reform Commission (NTRC) has prepared a list of recommendations that deal with most of the existing tax-related issues, including how to deal with capital flight, which have not been implemented attributed to lack of political will. The TPB would be well advised not to reinvent the wheel and carefully assess the recommendations of the NTRC.

The argument that separation of the functions of policy and administration would empower the executive or allow FBR to focus on raising revenue by undertaking more audits and proactively going after the non-filers may not be achievable unless the existing staff structure of FBR is changed.

To conclude, in all probability the administration's decision to establish TPB may be due to reservations expressed by Prime Minister Imran Khan on the bureaucracy resisting his agenda though at the same time he has assured the bureaucracy that he would 'protect' it from political pressure. His critics as well as his supporters refer to the quickest capture of an incumbent government by the bureaucracy in the history of the country.