

No vision for tax reform

AS talks with the IMF hit their stride, one glaring hole in the government's vision for reforms is on the taxation and revenue side. The last two governments can claim at least some semblance of a vision for the expansion of the tax base, even if that vision was criticised for its flaws or for not being implemented. The PPP tried to advance the idea of value-added tax to promote documentation and bring the retail and wholesale sector of the economy, which accounts for almost 20pc of GDP, into the tax net. That effort failed because the party was unable to get the votes in parliament for the so-called RGST (reformed general sales tax) bill. The PML-N did not agree to value-added tax, but implemented the Active Taxpayer List and introduced penalties for non-filers of returns, an effort that can expand in the years to come.

It is not difficult to be critical of both attempts but less easy to suggest alternatives. Pakistan's tax-to-GDP ratio improved in the past decade, standing around 13pc today from a low of almost 8pc a decade ago. But much of the improvement has come from squeezing those already within the net, and the effort to actually broaden the base of taxation has not met with much success thus far. It is now for the PTI government to pick up the baton of tax reform and continue this journey. Before they can even begin, however, they must first advance a vision, some sense of how they intend to bring services into the tax net, and give more buoyancy to revenue collection. This is critical because without a vision to broaden the base of revenues, it is more likely they will meet their Fund-mandated fiscal deficit ceilings by adding to the burden of compliant payers.

At the moment, all we have from the government is a committee formed "to come up with a 'massive and comprehensive' reform programme", as per an announcement made in the middle of October. The names on the committee are tried and tested old hands, so there is little expectation that anything "massive and comprehensive" will issue forth. Besides, committees are better suited to come up with modalities of implementation when a vision for future reform is already present. For the moment, all we have by way of a vision from the PTI is tough talk of strengthening enforcement, as well as some tinkering of responsibilities in the tax bureaucracy. None of this will be enough to broaden the base and promote documentation. The government needs to take a serious view of this critical deficit in its reforms programme, and use the talks with the IMF as an opportunity to expeditiously decide on a future course of action for tax reforms.

Editorial