

Bifurcation of FBR

The present government is working harder to restructure the public administration of the country to improve its working. Various reports indicate that it has decided to create a separate tax policy division as part of the ongoing reforms in the Federal Board of Revenue (FBR). According to a tax official, a summary will be submitted to the next cabinet meeting for the creation of a policy board for the new division. The present FBR will remain within the ambit of existing Revenue Division with its role to be confined to tax administration and collection of taxes while the Policy Division will be initially stationed at FBR with the senior most officials posted there but will fall under the Finance Division. Separate rules will be introduced for posting, transfers, administration and reporting line of all tax officers posted in Tax Policy Division which will be totally independent and have no connection with the FBR. However, it is not clear as yet whether officers from other groups could be posted in the proposed Division. All such issues will be discussed and clarified once the summary is sent to the cabinet meeting.

The proposed tax reform seems to be meant to broaden and deepen the tax net and in line with the PTI's manifesto which promised to turn the FBR into an autonomous body, independent of government influence. It may be noted that there was a provision under the FBR Act, 2007 to establish a policy board with an advisory role but the successive governments failed to establish it over the last 11 years. However, it is difficult to say that the previous two governments did not make any efforts to increase tax revenues and reduce overall fiscal deficit of the country. With a number of measures taken by them, Pakistan's tax-to-GDP ratio has improved in the past decade, standing at over 13 percent today from a low of almost 9 percent a decade ago. The overall fiscal deficit as a percentage of GDP has also dropped from 8.8 percent in FY12 to 6.6 percent in FY18. The major failure, however, has been squeezing those who were already in the tax net without broadening the tax net and its base. The previous PML (N) government also appeared to have made a mockery of the fiscal discipline by making unrealistic assumptions in the FY19 budget and leaving a fiscal mess which was supposed to be cleared by the new government probably in agreement with the IMF for negotiating a programme with the Fund.

However, it is very difficult to say whether creation of a new division and taking away policy formulation powers from the FBR would in itself make much difference on the overall tax collection and reduction in fiscal deficit. We say this because of two reasons. Firstly, any bold, practical and highly tax yielding measures could only be proposed by a very competent team having fresh ideas. Nothing of that sort is expected from the present tax officials likely to be transferred to the new Division or those who are likely to be recruited for the purpose because the required talent is not available in the country. And secondly, policies for fiscal stabilisation are not hidden but known to everybody responsible for the task. The only problem is with faithful implementation of the policies. For instance, it is quite evident that tax receipts could only be raised by broadening and deepening the tax net, removing tax exemptions, raising the tariffs on gas and electricity to plug the deficit, obliging the individuals and households to pay a uniform rate of tax irrespective of the source of their incomes, ending corruption and increasing the efficiency of tax machinery. However, no government has gone the whole hog due to political expediency. The question whether the present government will act differently has no easy answer.

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