

## Talking tax

Page No.07 Col No.01

With the PTI seemingly set to form government and probably set to announce its own tax policies, now may be a good time to talk about the popular tax amnesty scheme announced by the last government. Unlike previous amnesty schemes that failed miserably, this one beat expectations once the Supreme Court stated it would not be looking into the legality of the scheme. The tightening of tax laws, the FBR's expected access to the foreign accounts of Pakistanis and the uncertainty of a change at the helm of government combined to create an environment where a significant number of individuals chose to declare their undeclared wealth. Almost 80,000 people have filed returns on undeclared domestic and foreign assets worth around Rs6,000 billion. The FBR has collected more than Rs100 billion in taxes on these assets, with around Rs10 billion more said to be in the pipeline. The scheme has been the most successful tax amnesty in the country's history both in terms of tax collection and the declaration of assets, but this itself accepts the premise that the carrot, not the stick, works better in Pakistan.

Tax amnesty schemes are not the only way to bring tax defaulters into the fold. Despite the success of the scheme in terms of meeting some objectives, it has missed a significant set of its own parameters. Key amongst which was the expectation that it would lead to a flight of capital back to Pakistan in excess of \$3 billion, which would have offered a small cushion as Pakistan faces a foreign exchange crisis. The fact is that capital will not return to Pakistan until the economic outlook improves and the state shows that it will exercise its strong arm against those who have laundered money abroad. Whether the PTI can deliver on its dual promises of bringing money back to Pakistan and launching a crackdown on tax evaders remains to be seen. For now, the PTI has stated its opposition to the tax amnesty scheme and stated that tax reform is one of its key priorities. The Financial Action Task Force had also opposed the scheme. FBR officials have claimed that a number of individuals have chosen to declare their assets after the elections in fear of a less forgiving environment. All political parties seem to believe that bringing black money back to Pakistan as capital is a priority, but there is little sense of what productive use it would be put to. Perhaps the expectation itself is a strange one. Is it realistic to expect overseas Pakistanis to declare their assets in Pakistan and invest in the country? The FBR has once again gone down this route after sending around 700 tax notices to individuals who have a rental income from properties in the UK. This is a good start to the post-amnesty scheme era. One would hope the PTI government will pursue the stern and coherent approach to tax reform it has promised.