BUSINESS RECORDER
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Reforms in FBR

The PTI administration has taken some much-needed far-reaching reforms in the Federal Board of Revenue (FBR), including the formulation of a new Board, engaging leading data scientists from Harvard, LSE and Oxford to develop algorithms to better analyze data, third-party audit of PRAL with the objective of making it autonomous, a development programme developed with the assistance of multilaterals, tax policy separated from tax administration (the FBR Act 2007 envisaged establishing a policy board with an advisory role but it was never established) and formal access protocols signed with third-party databases to enable FBR to access information on high potential net worth taxpayers.

It is relevant to point out that Ishaq Dar, the then Minister of Finance, signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters in September 2016 due no doubt to IMF pressure, regarded as the most powerful instrument for international tax cooperation in the presence of OECD Secretary-General making Pakistan the 104th jurisdiction to join the Convention. The effectivity date was September 2018 and it provided "for all forms of administrative assistance in tax matters: exchange of information on request, spontaneous exchange, automatic exchange, tax examinations abroad, simultaneous tax examinations and assistance in tax collection". While the incumbent government accuses Dar of foot dragging in signing protocols with 20 plus countries yet after the July 2017 verdict against him in the Panama Papers case, Dar increasingly withdrew from discharging his responsibilities as the Finance Minister and snuck out of the country a few months later.

Finance Minister Asad Umar, on a visit to FBR headquarters on Tuesday, expressed his confidence in the new FBR team and exhorted the officials to implement an effective strategy to overcome the revenue shortfall of over 100 billion rupees in July-November 2018-19.

The FBR in turn assured the Finance Minister that it will deal with three major impediments to revenue collection. First, the Board would ensure speedy payment of pending sales tax and duty drawback claims. However, exporters accuse the FBR of withholding their claims by attributing it to delays in the verification process while the actual reason is widely believed to be a paucity of funds and the need to minimize the budget deficit. One would hope that the incumbent government, unlike its predecessors, does not engage in delaying refunds to shore up its revenue.

Second, to operationalise the newly created Directorate General of Immoveable Property established through a notification dated 29 November 2018. In this context, it is relevant to note that the Finance Bill 2018, passed during the tenure of the previous administration, envisaged establishing such a directorate with a restriction placed on purchase of immoveable property valued above 5 million rupees by non-filers, enforcement of transactions at a fair market value as well as the imposition of withholding tax rate at one percent to be payable by both buyer and seller.

And finally, the FBR committed to reconciling imports and exports data between China and Pakistan which at present consists of a discrepancy of 5.5 billion dollars due to under-invoicing. Pakistan Business Council concurs and maintains that in trade with China "severe revenue losses and tax evasion are taking place." It is relevant to note that in March 2018, the Abbasi-led administration and the Chinese authorities had agreed to operationalise an electronic data exchange platform by April 30.

One must support the incumbent government's decision to take on board good policy decisions proposed by previous administrations; however, there is also a need to be aware of impediments to their implementation. One notable hurdle is the failure to compel high net worth individuals identified by Nadra, to begin filing their returns as these individuals are legally exempt from filing their returns.

There is also a need to revisit the tax structure itself which remains unfair, inequitable and anomalous. Reliance on withholding taxes in the sales tax mode (which taxes the already taxed in the event that the filer purchases the item or service) is a regressive tax whose incidence is greater on the poor relative to the rich. Thus to meet the 100 billion rupee revenue shortfall would at best require a mini-budget that widens the tax net instead of increasing taxes on existing taxpayers and some significant changes in the law including removing the bar on auditing taxes for the past five years.

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