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Exploring new taxes

IN the run-up to the finalisation of an assistance package with the International Monetary Fund (IMF) next month, the government plans to introduce yet another money bill in parliament for adjustment in taxes, non-taxes and trade tariffs to create additional fiscal space of up to 1.5 per cent of GDP (close to Rs550 billion).

This has to be part of a larger three-year fiscal adjustment under the fund programme for a total of 2.5pc of GDP. The absolute number would go significantly beyond Rs1 trillion as size of the GDP expands. The disagreement with the fund remains on the pace and not the size of the financial restructuring — 'landing but not a crash landing', in the words of Finance Minister Asad Umar.

This comes even though the current year requirement for external account financing has largely been met with deposits, commercial loans and an import bill cushion in the shape of deferred oil payments from Saudi Arabia, China and the UAE.

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Both Saudi Arabia and the UAE poured in $3bn each in deposit and about $275-300 million each in deferred oil payments to cut the import bill by $3.7-4bn in the remaining six months of the year, providing a cushion of about $9-10bn during the current year. The remaining will be available from China in commercial loans.

Additional taxes and duties worth Rs150-160bn are being contemplated during the current year and the government will be returning to petroleum products as a key source of revenue generation. This will mean a partial revival of higher petroleum levy envisaged by the previous government in its farewell budget, and perhaps adjustments in general sales tax (GST) on petroleum products.

The previous government had set a target of Rs300bn from the petroleum levy for the current year against last year's collection of about Rs189bn. The supplementary finance bill presented in September this year reduced the petroleum levy target back to Rs189bn.

The present government has also been charging a significantly lower than normal GST rate on petroleum products ever since it came to power which has cost the kitty about Rs40bn. This was one of key reasons behind the Rs110bn revenue shortfall against the target in the first five months of the year.

The government is now targeting inflation and exchange rate hike as a revenue tool and expects generating up to Rs200bn after setting aside the impact of loss in revenue on imports.

The government is also engaging with the higher judiciary for revival of taxes on telecom top-ups and speedy adjudication of tax related cases on merit, as almost Rs1.3tr worth of claims are currently stuck. The government has lost Rs15-20bn so far on suspension of taxes on cellular charges this year.

Now that electricity rates have been jacked up in the first round, the revenue authorities are anticipating at least Rs50bn additional revenue from energy prices a year — about Rs30bn during this year owing to the loss of a few months.

There will be an increase in GST on domestic sale of export oriented industries as the government believes enough support has been extended on exports and the overall cost of production. Most of the products from the five major export sectors — textile, carpets, sports, surgical and leather products — are charged a lower than normal GST rate.

While custom tariffs are expected to be relaxed on job intensive industries to facilitate fresh investment in new manufacturing sectors while slightly increasing custom duties on a series of import items.

On top of that, imposition of fresh and increase in existing federal excise duties are planned on beverages and automobile items, both in terms of imports and local production. In addition, withholding tax on non-filers and import of finished goods will be increased.

The smart and targeted use of forensic audit is also being sought for some industries where under-reporting is said to be high such as in cement, steel, tobacco and sugar. The Economic Coordination Committee has already approved steps to improve reporting in the sugar sector while sugar and tobacco are also among active considerations for increased tax.

The provincial governments will be proactively engaged for effective revenue generation on some of the hitherto untouched areas like agricultural income and real estate to increase the share of provincial taxes in the tax to GDP ratio.

Moreover, the government is expecting that its major reform of separating revenue administration from policy will also help significantly increase revenue generation.

In the meantime, a treasure trove of data relating to taxation, tax filers, non-filers, and various consumers and account holders will be shared with the World Bank for an independent assessment of true revenue potential over the long-term.

Simultaneously, the first part of the reform process is expected to be made part of the second money bill that will be introduced in the National Assembly early next month.

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