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Another mini-budget on the anvil

Federal Board of Revenue (FBR) always finds “standards” reasons to justify the low revenue growth. It has been getting away with such effortless approach for ages. Not surprising is recent FBR recommendations for levy of GST on POL including crude oil as well as refined fuel per littre and for withdrawing reduction of withholding tax on salaried tax payers. Previously Senator Dar would even dub fall in oil prices as revenue loss, forgetting its salutary impact on foreign exchange and relief to commuters and different sectors of trade and industry. What are the compelling reasons for the FBR to invent “reasons for low revenue growth”? Did it collect due taxes and bring informal sectors in tax net, and lastly did the FBR embrace efficient structural changes other than cosmetics in nature? An analysis may help in putting FBR’s approach in perspective.

Revenue is by-product of economy. It is a known fact that 1% growth in GDP can enhance at most 0.75% revenue. Contrary to this universal equation, the FBR in 2013 to 2018 has been registering 20% revenue growth against a modest 4-5% GDP growth. Even with sluggish growth current FBR’s revenue target is at least 15%. Such growth is being achieved through raising tariff rates of withholding and GST taxes atop multiples layers of Customs duty. Lastly it is also sitting on due refunds of income tax and managing “advances”. None of the minsters took any step to pull up their socks to minimise tax evasion. “Advances” through renowned chartered accountants facilitates their job of tax avoidance. FBR Yearly Data Books, which after [AT1] 2017 has surprisingly not been published, shows that no more than 5-8% revenue collection by FBR own efforts. Also the Customs has been constantly revising the assessable values in form of new Import Trade Prices (ITP) besides multiple types Customs duty. Today they are advocating levying of the taxes on volume basis - what would they retain or they revert to tax on value once the oil prices start skyrocketing? Such obsolete approach has rendered the FBR too much complacent if not redundant as it continues to enjoy free lunch.

One could not understand the need of governor SBP instead by the FBR to attribute low collection to court decision for suspending withholding tax on pre-paid cellular phone. 60% of such cards are of Rs500 value and 10% on Rs1,000 per month. By any stretch of mind can such users fall with tax net who generally are laborers and, if not, why being taxed, asked an analyst on causes of poverty asked.

Is the present tax regime is business friendly is serious issue that begs answer. The prime minister applauded FBR head approach finding nothing wrong in lawfully making wealth. But the FBR chairman tailored tax-topping mini-budget budget. General opinions by the truthful practicing economist is that in Pakistan, the industry per se does not exist and at best or worst, only assessable plants in automobile, in the electronics consists upon assembling pants and in chemical and pharmaceutical sectors are only mixing imported raw material. Cigarettes industry is sad comments of FBR efficiency where only two companies contribute 98% of the revenue.

Why our industry could not find its feet is due to extra protective and patronising tariff and import regime. The repeated cliché is to switch over to imports substitutes policy but hardly planners have thought about the alternative options. The renowned industrialists admit that quality raw material is not available in the country, and engineering sector simply does not exist even the agricultural implement are of sub-standard quality.

Rightly pointed out, inevitable is now to expose the local industry to a competitive level since they will have some leverage over the goods being manufactured or produced in China, India, Malaysia or even Indonesia. A few industrialists admit that our industry is resilient to bounce back even when driven back to wall. Gradually our industry will improve quality through the introduction of technology and innovative approach. Economy of scale is what the government should work on.

Pakistan could escape from such vicious circle on promoting small, medium enterprises as these can easily enter international supply chain. The government should not shy away from open trade as over-protected industrial sector fails to take off. Such a paradigm shift would eventually open new industrial avenues, similar to how China thorough deliberations adopted this strategy in 1980-2000.

Another engineer working in the industrial sector pointed out that exposure of our labor class with the Chinese worker will teach them a lesson or two as on a scale of 1-10 Pakistan labor output is hardly 3-4 as compared to Chinese 8-9. The government should take bold decision in exposing industry to competitive industry.

Once the industry is in place, the FBR would be the happiest entity in collecting revenue instead of adopting perfunctory measures, discarded only to be again replicated. Today they are advocating levying of the taxes on volume basis - what would they retain such tariff or who reintroduce Tax on val (Ad vol) once the oil prices start skyrocketing? The FBR needs to focus out of net taxable entities effectively. The government and FBR boasts of issuing lacs of notices but it has been following this artificial measures since 2010 which were reinforced in 2013 but proved fruitless and nothing. Empirical evidence suggests its fate will be otherwise. Unless a professional autonomous management is put in place for the FBR, it will continue to invent one or the other lame excuses and one should expect few more mini-budgets.

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