

## **Revenue shortfall**

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According to data released by the Federal Board of Revenue (FBR), total tax collections for 2017-18 were 3.75 trillion rupees against the budgeted target of 4.33 trillion rupees, an amount revised downward in the budget documents for 2018-19 released on 27 April 2018 to 4.14 trillion rupees; and further revised downward to 3.95 trillion rupees.

Ironically, the FBR had revised its revenue collection target to 3.95 trillion rupees for 2017-18 in early April 2018 while the budget announced on 27 April 2018 gave the revised revenue targets as 4.147 trillion rupees - a gap of 195 billion rupees. This divergence maybe explained by the then Finance Minister Miftah Ismail projecting the tax collection under the tax Amnesty Scheme launched on 5 April by the then Prime Minister Shahid Khaqan Abbasi. However, provisional figures indicate that FBR's assessment was closer to the mark that strengthens the assumption that Ismail was motivated by the political as opposed to economic considerations.

As has become the norm, the presentation of the budget in the National Assembly gives an overoptimistic figure for revenue collections for the forthcoming fiscal year as well as for the outgoing fiscal year. The divergence between the budgeted amount and the actual figure widens during the course of the year and this was particularly so during the period Ishaq Dar was a functional Finance Minister: from 6 June 2013 to 28 July 2017 when the Panama Papers judgement was announced. His rationale was that he gave an overambitious target to the FBR to motivate it to achieve a more challenging target; FBR's failure to achieve the 'challenging' targets accounts for the PML-N administration's decision to impose mini-budgets during the past five years. In October last year when the current account deficit became a source of serious concern, the Abbasi-led administration decided to impose regulatory duties on 365 tariff lines to discourage imports, with revenue rise projected at around 40 billion rupees, however, this move did not contain imports and was not enough to meet the revenue targets either. In other words, the failure to achieve the unrealistic budgeted revenue targets have accounted for mini-budgets, an additional erosion of disposable income during the year.

The Abbasi-led administration's budget for next fiscal year envisages total tax revenue of 4.888 trillion rupees in the current fiscal year 2018-19 and this amount appears to be reflective of a Dar-type approach, notably overstating the revenue collection, rather than presenting a realistic assessment of what is achievable. This is particularly so because the April Tax Amnesty Scheme envisaged a marked reduction in income taxes and corporation taxes effective 1 July 2018. Additionally, the Amnesty Scheme assumed that the GDP growth rate, projected unrealistically at 6.2 percent, would generate higher taxes for the government while there is unfortunately no direct linkage between GDP growth and higher tax collections in this country.

All national political parties acknowledge the need to reform the FBR, with former Finance Minister Shaukat Tareen claiming that there is at least 500 billion rupee annual leakage from the Board. At the same time, a large number of taxpayers in the manufacturing and trading sectors cite specific instances of FBR officials compelling them to pay huge bribes and urge the government to reform the FBR. Additionally, the tax structure itself is unfair and inequitable besides being anomalous which presents further challenges to tax collection in this country.

It is not in doubt that reforms in the FBR are required on an emergent basis, a move that is going to be resisted by the Board staff, however, the next administration would be long remembered if it remains engaged in the task in spite of some political challenges that it may face along the way.

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