

Taxes for extravagance?

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The Federal Board of Revenue in recent times has decided to jack up its efforts to increase the number of tax return filers in the country. Hearing this news would make some assume that non-taxed sectors or economic agents would be brought into the tax net to not only increase the tax base and revenue collection but also improve the tax return filing in the country.

However, much like every other time, the force of FBR efforts was focused towards the existing taxpayers and tax returns filers.

The most recent and proclaimed by the FBR a major step towards increasing tax return filings was to block the mobile phone sims of non-filers.

The truth however is that the use of term non-filers was highly misleading. Reason being the FBR action was targeted towards only the people who had been filing tax returns previously but missed the filing during the last fiscal year.

Those who have remained undocumented and never filed tax returns despite scores of wealth successfully evaded the wrath of yet another FBR action. The message to the public from these efforts of FBR was clear: 'Remain Undocumented, Remain Undetected'.

The FBR repeatedly claims to putting in efforts and new measures to increase tax collection in the country. The same is pushed by the global lenders, including the IMF and World Bank, to increase tax collection.

Since the FBR has continuously failed to improve its tax administration and policy while tax exemptions for a select few continue to increase, the FBR turns heads towards the existing taxpayers and indirect taxes to further raise revenue to finance the ever increasing extravagant government expenditures. Despite all these measures and supposed efforts, not only does the tax base fail to increase, the number of tax returns filers also remains stagnant with negligible yearly change. The decision makers in the country continue to wonder why?

The government continues to employ various harsh measures, including the recent closure of mobile sims to try and force people to file their returns and become documented. However, all these efforts remain highly futile. What the government and its revenue authorities continue to ignore in its decision-making is the incentive structure of the economy, and more importantly, the taxation regime.

It must be understood that at the root of all decisions by public, firms, etc., is a single phenomenon: the incentive structure.

The incentive structure holds its importance in the matter of being documented as an individual, organization or business for taxation matters as well. What the country's decision makers fail to realize is that no one in the world pays taxes happily. Instead, taxation is seen as a transaction between the public and the government, where the public pays taxes and expects certain action and measures or amenities from the government.

In countries with high tax collection and compliance, the public finds the transaction beneficial based on the return they get from their government for paying taxes.

In a country like Pakistan, this return seems to have diminished over time and the current mood suggests that documenting your income and wealth seems to be inviting further troubles your way. Not only that, but the public services' provision by the government continues to worsen in the country. While taxes continue to increase in the country, the public is forced to look for all essential services privately.

For instance, private schools for quality education, private hospitals for healthcare, solar energy system for electricity, LPG cylinders for gas, private tankers for water supply, private housing societies for residence, development charges for local road and streets, etc.

Considering this, they are in all their rights to question the basis of paying taxes? If everything has to be procured and arranged for by paying separately each and every time, then why should the people of the country pay taxes? Just to finance the lavish lifestyle and protocols of politicians, bureaucracy and other select few decision makers and rent seekers in the country?

The country is in dire need of taxations reforms. These reforms needs to be two pronged, focusing on both the tax administration and tax policy. Without effective and efficient tax administration and tax policy both, taxation reforms are not possible in the country. PIDE-PRIME joint tax reforms commission recently laid out a simple blueprint for the tax reforms in the country.

The blueprint recommends that the new taxation regime in the country must focus on simplification of the tax code and processes, which should be citizen-friendly and transparent. Stability and predictability of tax regime is essential to stimulate growth and investment in the country while automation and digitalization must be used to improve the efficiency of the taxation policies and tax administration.

The PIDE-PRIME tax reforms commission details policy recommendations in all areas of taxation. The commission proposes a uniformity of taxation on all income regimes of personal and other non-corporate incomes while reducing the corporate tax rate to 25 percent. It is essential, the commission points out, that the GST/VAT must be harmonized and the tax rate must gradually be decreased while ensuring an increase of compliance through modern techniques, digitalization and automation of processes. In order to encourage investment in the manufacturing sector, the import of plant and machinery, industrial raw materials and intermediate goods must be given zero-rated status.

The commission also recommends reduction of withholding tax lines in the country with the aim to roll-back withholding tax regime on all but essential tax lines such as pay-roll, interest dividends, and payments to non-residents.

The current tax regime in the country has suffocated life out of the economic activity, while the overall governance structure presents no incentives to the public and businesses to pay their taxes.

A complete overhaul of the taxation system is necessary to let the economy breathe while also collecting adequate revenue as economic activity and investment in the country increases. For the purpose, the blueprint provided by the PIDE- PRIME joint tax reform commission is a good starting point.

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