



## Respect To Taxpayers

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Revenueocracy<sup>4</sup> keeps on maligning the citizens as tax dodgers. Unfortunately, the bandwagon is joined by the so-called “informed” analysts and all-knowing (sic) TV anchors calling Pakistanis “tax cheat”, whereas reality is quite the opposite. The often-repeated popular jargon that only “1% of the population pays income tax” has become Gospel’s truth in Pakistan that nobody is ready to disbelieve. It exposes the hollowness of all those who subscribe to it. Collection under withholding income tax regime was Rs. 1091.5 billion out of total direct tax collection of Rs. 1513.8 billion in fiscal year 2019-20, according to official source, *FBR Year Book 2019-20*<sup>5</sup>. Advance tax paid was Rs. 351 billion and with returns Rs. 61 billion. FBR collected only Rs. 61 billion (arrears of Rs. 14 billion and out of current demand Rs. 47 billion) with its own efforts, which is only 4% of total collection.

One slogan that is not raised enough by the economic or political agents in the country is ‘*taxpayers ko izzat do*’. The matter cannot be overemphasized—Ali Khizar, **Respect the taxpayers**<sup>3</sup>, *Business Recorder*, November 1, 2020.

The argument that the staff of Inland Revenue Service (IRS) contributes by monitoring of withholding taxes is fallacious as bifurcation of major contributors under withholding income tax regime shows: Contracts (Rs. 237.4), Imports (Rs 199.6 billion), Salaries (Rs. 129.4 billion), Bank interest & securities (Rs. 128.1 billion), Dividend (Rs. 55 billion), Telephone (Rs 54.6

billion), Electricity (Rs. 45.4 billion), Technical Fee (40.1 billion), Exports (Rs. 38.4 billion) and Cash withdrawal (Rs. 15.1 billion)—Table 10, Page 15 of *Year Book for 2019-20*<sup>6</sup>. It is pertinent to mention that no bifurcation is given for remaining 56 withholding tax provisions prevalent during the relevant year. Federal Board of Revenue (FBR) claims that withholding taxes need strict monitoring for which it made “extraordinary” efforts. If this is true then defaulting withholding tax agents must have been penalised and its demand should have reflected in either current/arrears collection, or through a separate note, which is totally missing. It is still open for FBR to post on its website the details of any such actions as well as make public, the number of income tax returns and sales tax registered persons, category wise, as on June 30, 2020. It must also disclose the quantum of due refunds as in the Year Book for 2019-20 only refunds actually paid are mentioned.

It is admitted by FBR before the Standing Committee on Revenue of National Assembly that total refunds due on June 30, 2020 was of Rs. 710 billion<sup>7</sup>. If the admitted refunds payable are deducted from the total tax collection of FBR for fiscal year 2019-20, the net figure comes to merely Rs. 3287 billion or just 7.7% of GDP. Millions pay advance income tax despite the fact that majority of them has no income or income below taxable limit. Law does not require them to file returns but under the lenders' agenda to retard growth and in the name of so-called documentation drive, FBR wants to harass them. The members of Parliament passed tax laws as suggested by Executive without proper public debate and its critical review by independent professionals. The Parliaments and judiciary have failed to protect the fundamental rights of citizens. Forcing a person not earning taxable income to pay advance tax or file tax returns is a blatant violation of Article 4(c) of the Constitution that **“no person shall be compelled to do that which the law does not required him to do”**.

**Another wrong notion is that traders and manufacturers do not pay income tax. All of them have been paying advance income and sales tax with electricity bills. Section 235(4)(a) of the Income Tax Ordinance, 2001 says that in the case of a taxpayer other than a company, tax collected up to Rs. 43,200 of a commercial electricity user shall be treated as minimum tax and no refund shall be allowed even in cases suffering losses, especially in the wake of Covid-19 endemic/lockdowns. Law recognises payers of advance income tax with electricity bills as “taxpayers”, yet FBR and their bandwagoners call them tax chor (tax thieves) “defaulters” and “evaders” and State thieves are given tax exemptions, concessions, waivers and amnesties.**

Majority of the mobile users who pay advance/adjustable tax having no taxable income are supposed to file complicated income tax return and wealth statement electronically to claim refunds. About 65% of our population being young and yet not employed is not chargeable to tax. FBR is extorting income tax from 100 million unique mobile users (having more than one number and active users). According to Pakistan Telecommunication Authority (PTA), the total number of cellular subscribers as on March 31, 2021 was 183 million (84.68% teledensity), out of which 98 million are 3G/4G subscribers (43.51% penetration), 2 million basic telephony users (1.13 teledensity) and 101 million broadband subscribers (46.4% penetration). At present, the entire taxable population and even those having no income or income below taxable limit are paying income tax at source as mobile users, yet FBR is engaged in a vicious propaganda that people of Pakistan are tax cheats. **This is highly lamentable, especially when 4 million commercial/ industrial electricity users are paying advance income tax and sales tax with electricity bills.**

For elimination of trust deficit between tax collectors and taxpayers, the following ten steps are inevitable:

- The tax laws/rules/procedures in existence need to be simple, fair, reasonable and easy to comply.
- In the administration of tax laws, sense of justice needs to be ensured/enhanced.
- The goal should not be meeting targets, but collecting the right amount in accordance with law.
- Existing tax laws are complicated and ambiguous. These are difficult to understand and vulnerable to diverse interpretations, leading to undue litigation. These must be replaced with simple and enforceable codes.

- Lack of accountability has taken away the sense of justice from tax administration and people have to deal with multiple tax agencies. Corrective measures are required to merge various tax agencies and regain the confidence of taxpayers.
- Tax collection must be used productively, without wastage.
- Maximum tax rate should not be more than 10% for individuals and 20 percent for companies.
- State provides they are unable to earn. They have nothing to fall back on. Government is a partner only in income not otherwise. **Reciprocity of taxes needs to be provided.**
- A high tax paying person is disillusioned when the dishonest are offered amnesties/waivers frequently. Squeezing tax from the honest and rewarding the delinquents dissuade others to make true compliance, especially when the influential enjoy tax-free perquisites and benefits, palatial bungalows, army of servants, free foreign trips, medical facilities abroad, free facilities of clubs, plots etc.
- Tax administration should treat taxpayers as respectable citizens and not as “tax evaders”.

<sup>3</sup> <https://www.brecorder.com/news/40029869>. The punch line of his op-ed is: “The perceived cost of documentation for many is too high. That is why neither higher interest rates nor higher taxes on non-filers are working. The culture of tax collecting agencies (especially FBR) must change. The trust deficit between the government and taxpayer must also be reduced. For that overall public service delivery (governance) and FBR's way of operation has to improve. All easier said than done though”.

<sup>4</sup> Term used by Dr. Pervez Tahir (Giving FBR a decent burial, The Express Tribune, November 8, 2019).

<sup>5</sup> <http://download1.fbr.gov.pk/Docs/2020929129450205FBRREVENUEDIVISIONYEARBOOK2019-20.pdf>

<sup>6</sup> Ibid

<sup>7</sup> <https://tribune.com.pk/story/2262228/tax-refund-claims-balloon-to-rs710b>