

Taxes & Revenues

Tax and Revenues Federal Budget 2020-21 has presented an ambitious revenue plan (see Table 3.1). Considering the past performance, it is likely that the targets will be underachieved. Revenue forecasting models, if any, used by the Ministry of Finance and the FBR, always overestimate the expected revenue performance. The total tax collection grew by 6.1 percent in FY2020 against

the meagre growth of 0.1 percent in the comparable period of FY2019. In absolute terms, tax collection stood at Rs 4,747.8 billion in FY2020 against Rs 4,473.4 billion in FY2019. Tax Revenue target for the FY2021 has been set at RS 5.83 trillion. Table 3.1 shows the composition of tax and non-tax revenue along with performance and target value for the next fiscal year.

Table 3.1: Tax Profile

Yearly profile							Missed targets %			Targeted growth %
Rs in Trillion	2018-19 BE	2018-19 RE	2019-20 BE	2019-20 RE	2020-21 BE	2020-21 RE	2018-19	2019-20	2020-21	2021-22
Total revenues	5.66	5.03	6.72	5.50	6.57	8.49	-11.11	-18.05	-16.43	-2.7
Share of total revenues										
Total taxes	86.36	87.33	86.68	76.46	83.13	68.69	-10.12	-27.72	-9.49	17.44
Total non-tax revenues	17.40	14.38	20.17	29.22	25.00	23.57	-17.37	44.89	-1.68	29.17

- The revenue collection target has been set at Rs 5.83 trillion for the upcoming fiscal year 2022 and is less than the IMF recommendations of Rs6 trillion. This collection, if achieved, would be a 24 percent increase in YoY on the Rs4.7 trillion target surpassed by the revenue collection agency FBR. The non-tax collection target will be set at Rs1.42tr, an increase of 22 percent. The proportion of provincial taxation would be Rs3.41tr, thus an increase of 25 percent revenue given to provinces. The government spending would increase to Rs.8.497tr from Rs.7.341tr, an increase of 15 percent in the Fiscal Year 2021-22.
- The share of the total taxes in the revenues is around 75%. Last year it went exceptionally high to around 84 % due to the increase of economic activity. The FBR contributes around 80% of the total revenues of the federal government; therefore, any miscalculation or miss targeting can severely cripple the budget, not just of the federal but the provincial governments as well.

Table 3.2 : Revenue Performance and Revenue Targets

		Target Achievements			Targeted Growth %
	Description of Revenue Source	2018-19	2019-20	2020-21	2021-22
Tax Revenues					
A.	FBR Revenues	-6.43	-29.65	-5.48	17.44
i.	Direct Taxes	-4.38	-22.04	-12.43	6.80
	Taxes on Incomes	-3.41	-21.95	-12.42	6.85
	Workers Welfare Fund	-77.54	-49.54	81.22	102
	Capital Value Tax (CVT)	-49.73	-38.00	-81.57	-79.3
ii.	Indirect Taxes	-7.74	-34.21	-0.61	24.89
	Custom Duties	0.00	-45.43	9.37	22.65
	Sales Tax	-12.35	-32.30	0.41	30.58
	Federal Excise	0.38	-14.48	-23.83	-1.38
B.	Other Taxes	-46.24	12.46		
	Other Indirect Taxes		90.64		
	Mobile Handset Levy	-80.05	33.33	-13.79	55.17
	Airport Tax	-66.67	-51.43	20	100
	GIDC	-75.00	-63.33	66.66	766
	Natural Gas Development Surcharge	-50.00	0.00	170	260
	Petroleum Levy	-32.22	20.36	11.11	35.55
Non-Tax Revenue	-1737	44.89	5.85	29.17	
A.	Income From Property and Enterprise	20.37	-9.79	-15.9	26.16
Out Of Which	Pak. Telecommunication Authority	0.00	544.90	25.21	70.46
	Total Markup	2.46	-57.59	-16.82	4.44
	Dividends	-20.75	-26.97	-33.86	48.18
B.	Receipts from Civil Administration and Other Functions	-44.21	87.87	12.68	5.96
Out of Which	Surplus Profit of SBP	-47.36	93.32	12.90	4.83
C.	Miscellaneous	-20.58	25.40	7.38	51.25

Table 3.3: Interprovincial Fiscal Relations

	Yearly Profile					Target Achievements (%)		Growth (%)
	2019-20 BE	2019-20 RE	2020-21 BE	2020-21 RE	2021-22 BE	2019-20 MT	2020-21 MT	2020-21RE
FBR Revenues (PKR. Trillions)	5.56	3.91	4.96	-5.48	17.44	-29.65		
Provincial Share in Federal Taxes %	58.59	61.47	57.90	-5.9	18.72	-26.19		

- Provinces get around 59% of the FBR revenues as fiscal transfers. Such a small figure has resulted in the underperformance of FBR in the past two consecutive years. The provinces suffer immensely if the federal transfer is lower than expected. In case of lower federal transfers and limited or no options of borrowing Provincial service delivery suffers badly.
- This year the FBR revenue targets are expected to grow to RS 5.8 trillion that is 23 percent higher as compared to the estimated collection of Rs 4.7 trillion in FY 20-21

Salient Features

- On the revenue front, targets are once again ambitious and stringent, possibly leading to an increased debt burden. The government is expected to achieve this by focusing on broadening the tax base through augmented documentation as opposed to introducing various new major taxes.
- The government has reduced sales tax on locally manufactured cars from 17% to 12.5%. The government has also exempted Federal Excise Duty (FED) on 850cc cars and will slash duty on electric cars.
- The government was introducing third-party audits which would thwart the FBR harassing any individual or business entity. Those who are found guilty of evading taxes or deliberately hiding their income will be fined severely.
- Through the Finance Bill, 2021, the threshold of monthly electricity bill has been reduced from Rs75,000 to Rs25,000 for the purpose of levying withholding tax at the rate of 7.5 percent. However, this tax will not be applied on persons who filed their annual income tax returns and are on the ATL issued by the Federal Board of Revenue.
- The finance bill proposed to tax profit on the debt component of GP fund and other such funds. The finance bill also proposed to withdraw personal income tax exemptions.
- The specified goods when supplied within the limits of the Border Sustenance Markets, established in cooperation with Iran and Afghanistan, will be completely exempted from the sales tax.
- withholding taxes on mobile phones, will be reduced to 10% at first and then 8% later from 12.5%
- The rich will be asked to pay taxes in accordance with their wealth, So the salaries class will not be burdened with additional taxes.
- Custom duty from vaccine and medicines of livestock abolished to promote the livestock sector.
- Tax exemption on paper used for Quran publication, auto-disable syringe, and oxygen cylinders.
- Tax collections saw an 18 percent increase last year as the country crosses the limit of Rs4000 tax collection. 75 percent more tax refunds were made this year.
- Provincial share in the federally collected taxes to stand at Rs3,411 billion. Provinces share in NFC increased, to receive extra Rs707bn.
- Sugar included in the third schedule of sales tax act, helping in the elimination of artificial hike in prices of the commodity.
- The Federal Board of Revenue (FBR) has been tasked to collect an additional revenue of over Rs1 trillion in budget 2021-22 over the current fiscal year's collection. This additional revenue will be achieved through the withdrawal of exemptions in sales tax, income tax, minimising concessionary tax rates as well as through growth in economy and inflation.