Impact of SROs on the Economy of Pakistan

Webinar

Brief 18:2021

Pakistan Institute of Development Economics

PIDE WEBINAR

Impact of SROs on Pakistan Economy

PIDE is holding a webinar on "SROs and their impact on economy" on February, 08, 2021 to solve the SRO puzzle. In this webinar we would like to invite public as well as private sector intellectuals to spotlight the pros and cons of SROs.

We would like to debate on: Is it viable to continue SROs? Or can we restrict them only for very critical cases? Or there also exit some good SRCs?

Our particular focus areas will be:

1. Should the use of SROs be only confined to formulation of procedures for implementing a tax law/laws?
2. If the SROs allowing tax concessions were eliminated, would it not hurt those sectors which are currently benefiting from them?
3. Is it true that SROs are a source of promoting a culture of rent-seeking?
4. Can we find any positive results of SROs in any area like promotion of any specific industres, lowering the burden of taxat on on social sectors or boosting exports?
5. We would love to see examples of useful and harmful SROs? Economic imoact of industry wise concessions, specific user concessions? Their impact on domestc industry?
6. Does SRO culture make genuine commercial importers and SMEs uncompetitive?

Monday,
08 February 2021
Start At :
07:00 PM PST
Live Via Zoom Meeting

WEBINAR

MODERATOR

NADEEM UL HAQUE
Vice Chancellor
Pakistan Institite of Development Economics

SPEAKERS / PANELISTS

IKRAM UL HAQUE
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Supreme Court of Pakistan,
Managing Partner
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Chairperson
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CEO
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Preamble

PIDE recently organized a webinar to understand the impact of SROs on the economy of Pakistan. This webinar enlightens us was to understand how SRO culture affects the Economy of Pakistan in terms of its impact on the promotion of specific industries, users and groups, and rent-seeking.

SROs stands for Statutory Regulatory Orders; this refers to all kinds of government regulations carried out by FBR and different ministries through delegated powers. These include SROs in the health sector, in taxes, in commerce, in energy, in auto sector, etc. But this webinar only concerned with the SROs in taxation. In this context, SROs are of two types in terms of regulations i.e., procedural and concessionary. Concessionary SROs grant tax concessions or exemptions as well as impose extra taxes in the form of additional duties and regulatory duties. Whereas, Procedural SROs provide some kind of rules or procedures to carry out laws/ amendments in the existing SROs. Over time the nature and form of concessions given under SROs have been changed and now the system is moving from SROs to schedules where the same SROs are introduced through schedules like 5th schedule in customs and 6th schedule in sales tax. FBR had the discretion to grant concessionary SROs but now this authority has been withdrawn from FBR and now it is the parliament who is responsible to grant SROs.

Key Messages

- SROs are the product of elite class and lobbying, and meant for rent-seeking; most influential lobbies avail full or partial exemption of taxes and duties through SROs and alter the tax laws. For example, in Pakistan, the auto industry is protected under these SROs due to which foreign competitors cannot easily enter the domestic auto industry.
- SROs distort the competitive economic environment and reduce fiscal revenues. The costs of concessions under these SROs were Rs. 5,500 billion in five years from 2013-2018. Provision of SROs are making the tax laws very complex and making difficulties for important businesses by creating huge tax expenditures and increase the cost of doing business.
- Elite class businesses get the benefit at the expense of SMEs; SMEs are unable to fulfill the SROs conditions. These exemptions have created a clear bias against small and medium-scale industries. SROs kill the economic activities in a country in the form of higher tariffs and duties while giving favors in the form of concession and exemptions to a certain class of businesses or groups.
- SROs have been used to generate additional revenue for the last 3 to 4 years through regulatory duties. The tariff rate in Pakistan is very high, concessions in the form of SROs must be given to new sectors to help them to grow. In 2007-2008 there was an increase in SROs to raise FBR revenues through higher tariff rates and at the same time also gave concessions (SROs) to specific sectors which needed them the most.
- Concessions in the form of SROs should be given but how these should be given is an important policy question. There are three principles according to which concession under these SROs should be granted, these are; concessions should focus on new things and activities, those concessions should have a built-in sunset clause to avoid rent-seeking, a system of benchmarking success should be introduced.
- The whole governing system of SROs is highly captured by the elite class. SROs are drafted in a way that prevents innovation. It creates a large fiscal cost; the actual revenue collected by FBR with these concessions and exemptions is lower than the total revenues without these exemptions and concessions. So to overcome these problems SROs should be minimized and the system could be transformed into an industrial policy with more innovation, improved quality, transparency, and efficient usage of fiscal resources.
- The present structure of SROs in Pakistan is conflicting, on one side the government raises revenue in the form of extra taxes and additional duties while on the other hand provide concessions and exemptions to some specific sector or groups. The solution to this issue lies in the reduction of overall tariff rates. The National Tariff Commission (NTC) has started working on it, all the SROs are now transferred to the 5th schedule which gives equal exemptions to all sectors in the form of reduced tariff rates.
- In the New National Tariff policy, NTC is gradually trying to reduce the general tariff rate by introducing the 5th schedule of the Customs Act and transferring all the SROs in the 5th schedule to 1st schedule so that concession would not be for a particular sector but all sectors could equally benefit from reduced tariff rate.

- SROs and schedules have been merged into the 5th schedule. Now there are three tariff rates namely the general/normal tariff rate, the schedule tariff rate, and the SRO tariff rate.
- The constitutional perspective of giving exemption through SROs says that delegation of powers to the executive to issue SROs is a violation of articles 77 and 162 of the constitution; it is the authority of the Parliament to issue SROs. These SROs are not legal because even the Parliament cannot make changes in the law without the consent of the president according to articles 77 and 162 of the constitution but FBR and other provincial authorities have violated this law again and again. SROs are elite capture as well as institutional capture as it can be seen that the Federal Board of Revenue whose function is to collect and administer taxes is issuing SROs and making policies that are against the spirit of the constitution of Pakistan. So SROs should be limited to framing rules and regulations to carry out laws not for framing or changing existing tax laws.
- Every year FBR receives policy proposals from everywhere including industries, associations, individual businesses, chambers, etc but concessions are given to the most influential lobbies without performing proper research.
- Revenue collection is a product of two functions – economic activity and tax rate. If the tax rate is altered in a way that kills economic activity, then there will be no revenue collection so it is necessary to maintain a balance between these two objectives. In Pakistan, for the last 40 years, the taxation system has been killing economic activities by fiddling with taxes and tariff rates. Through different concessions and SROs, the system is altered in a way that favors one and disfavors many thereby killing the economic activities.
- Under extraordinary situations like this current pandemic condition, tax concessions and exemptions should be given to businesses that are facing losses in a way that focuses on economic growth by generating economic activities.

Conclusion

To sum up, the majority agreed that SROs are harmful to economic growth and the economy as a whole.The system should get rid of SRO culture and policymaking should take place through proper research and thinking. Policymaking should not be in the hands of those who have vested interests like FBR whose sole interest is to raise revenue. One way to move away from the current SRO system towards a more dynamic system is to give tax concessions to new activities with a sunset clause and a benchmark to measure success and failure by making them a law rather than discretion. Secondly, the overall or general tariff rates should be decreased to get rid of these SROs.

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