

# FBR for the non-filers

Mohammad Shaaf Najib

The tax policies pursued by the FBR have not only increased the complexities and issues faced by the public and organizations, they have also acted as a barrier to economic activity and thus economic growth. Heavily taxing all transactions has a regressive impact on the number of transactions in the economy and thus leads to a reduction in economic activity, but unfortunately...

**F**BR due to its inability to meet the revenue targets has come under sheer criticism for a very long time now. While it is set to cross the targeted collection for the first time in around two decades, severe criticism still exists, and rightly so. The criticism on FBR is not just about failing to collect revenues, but the entire taxation system of the country. The collection shortfall is just a product of that damaged system.

The government, and thus FBR, have remained too focused on just the revenue. In pursuit of meeting the targets, basic principles of taxation have been widely ignored for quite some time now. The tax base has not been broadened, at least not signifi-

cantly. Those outside the tax net, remain comfortably in the same zone. On the other hand, the tax burden continues to increase on the existing taxpayers. A surge of indirect taxations has put the poor and lower middle class in never ending misery.

Continued expansion of the withholding tax regime has not only helped increase the tax burden on an already tax heavy economy, but also shifted the collection burden from FBR to withholding agents. Increased documentations and processes only add to the costs attached with taxation, which already has remained quite a complex system in Pakistan. Given the vastness of the withholding regime in the country as of now and the continued expansion in it, it will not be long when everyone might end up as a withholding agent for the FBR in one way or the other. This though does beg the question that if the burden of ensuring tax collection through withholding taxes is shifted to the general public and organizations, then what is the need of such a large staff for the FBR itself?

The tax policies pursued by the FBR have not only increased the complexities and issues faced by the public and organizations, they have also acted as a barrier to economic activity and thus economic growth. Heavily taxing all transactions has a regressive impact on the number of transactions in the economy and thus leads to a reduction in economic activity, but unfortunately the FBR and finance department fail to see this impact in their pursuit of revenue targets.

There though is one group of people that are satisfied with the approach of the country's revenue authorities, i.e. the non-filers. The distinction of tax rate for filers and non-filers is not only principally against the laws laid down by the government and revenue departments including FBR, as it

allows people to carry out their activities and transactions without filing the taxes. It moreover also acts as an incentive for non-filers to remain non-filers.

By paying a slightly more amount over the tax that the person would have paid as a filer, the non-filer earns the right to hide their actual income levels and not pay any taxes on that. If anything, this data must have been used by FBR to compare the transactions being performed by the non-filers and their lifestyle. Non-filer transactions should have been used to bring into tax net and penalize the people hiding their incomes. Unfortunately, the FBR has failed to make any real progress on that. Instead, it keeps on questioning only those who continue to file taxes regularly.

The distinction between filer and non-filer tax rates must be abolished immediately and instead a single rate of taxation should be applied on the said transaction regardless of tax filing status. If then, anyone is involved in a transaction that may reflect taxable income but is not filing taxations, the FBR and other relevant authorities must investigate and penalize the non-filers.

There is a great degree of distrust among the public regarding the FBR, and the public not to be blamed for this. The common perception is that if you, as individual or an organization, are filing your taxes honestly and regularly, then you must always keep looking over your shoulder for possible questioning and harassment at hands of the revenue authorities. On the contrary, if you are not filing your taxes at all, then you need not worry as the authorities will never even look towards you.

**– The writer is a Research Fellow at the Pakistan Institute of Development Economics, Islamabad. Views expressed are his own and do not express views or opinions of PIDE**