**Economy Documentation and Digitalization**

[Dr Qaisar Rashid](https://dailytimes.com.pk/writer/dr-qaisar-rashid/)

June 8, 2024

Pakistan’s economy is now bracing itself for documentation and digitalization. Documentation means getting recorded, and digitalization means getting digitally accessed. Taken together, it means that, instead of manual entries done by tax authorities of any hue, digital computing technology would be used to collect taxes. Similarly, taxpayers would be able to access the economy digitally to know where the money is being spent.

The country avoided this moment several times before until now. Pakistan’s economy cannot run unrecorded. It cannot be a cash economy, in the face of the challenge that Pakistan is a cash-strapped country teetering on the brink of sovereign default. Interestingly, cash is there but it lies hidden from tax-collecting eyes. Retailers are a special focus, and so are services providing professionals such as doctors, lawyers, and chartered accountants. The services sector has been the subject of indirect taxes overwhelmingly, thereby making professionals evade their direct tax-paying responsibilities. The practice of business in cash has come to their rescue. These professionals also avoided paying direct taxes on the income they earn. Such a facility may not be available any further.

Cash business also helps retailers and traders circumvent banks. It is the word of mouth that works wonders. To bring tax evaders into the domain of documentation would be an uphill task. They present the threat of resorting to a countrywide shutter-down strike. This is why the previous government run by the Pakistan Tehreke Insaf (PTI) avoided documentation of retailers and traders. The incumbent government run by the Pakistan Muslim League- Nawaz (PML-N) has to perform the ugly job. Nevertheless, hailing from the banking sector, the new Finance Minister Muhammad Aurangzeb has taken upon himself the task of documenting and digitalizing the economy fully.

The point is simple: Pakistan is a power-driven and power-respecting country, leaving little for the destitute and deprived.

Currently, the Federal Board of Revenue (FBR) has been facing two kinds of challenges simultaneously. First, how to restructure itself to improve performance. Second, how to meet the huge revenue collection target set by the International Monetary Fund (IMF). Both challenges have been posed by the IMF.

For the coming Financial Year 2024-25, the IMF has asked the FBR to collect Rs 11.113 trillion in revenue, compared to the revenue collection target of Rs 9.415 trillion for the current FY 2023-24. The jump of around Rs 2 trillion throws a real-time test to the functioning of the FBR. If Pakistan has to secure a loan-lending Extended Fund Facility of the IMF, the FBR has to work under the watchful eye of the IMF.

The FBR has to sort out measures to reach the huge revenue collection target. One of the measures could be to have access to bank accounts of everyone. If taken, this step would revolutionize the tax-collecting potential of the FBR. To do the same, legislation would be required.

The IMF has also asked the federal government to do the needful to collect more taxes. Hence, a regime of progressive taxation is in the offing. That is, individuals earning high salaries would pay more tax, and the same would be deducted from the source, as a direct tax. This step alone would end the practice of doubling the salaries of government servants.

After November 2007, when the then COAS General Pervez Musharraf handed over the baton to General Ashfaq Pervez Kayani, the country witnessed a policy of doubling the salaries, first in the junior officers of the army, and then in Punjab, where the then Chief Minister Shahbaz Sharif doubled the salaries of the police.

Other provinces also followed suit. Seeing the trend, civil servants decided not to be left behind. They also secured hefty salaries, matching those in the private sector. On the touchstone of salary, this was the privatization of the government sector. Similarly, the success of the lawyers’ movement emboldened the lawyers to ask for the rise in salary and post-retirement privileges of the judges, in the expression of the bar and bench bonhomie.

They got it. Extra funding was also allocated to high courts to renovate their buildings. Even young doctors lodged strikes to replicate the same formula and then got the objective achieved. A time reached when the country’s President also demanded a rise in his salary to be equivalent to this and that office. The forthcoming budget is expected to penalize the policy of doubling the salaries.

The economic situation is so dire that the incumbent government may find it difficult to issue funds for development projects, rendering the elected representatives deprived of development funds. The tragedy is that Pakistan has got so inured to spending high on non-development projects that now funds for development projects are scarce. Nevertheless, the major challenge is how to fund the lower section of society through continuing with welfare projects such as the Benazir Income Support Program (BISP). If this were not a condition from the IMF, Pakistan would have abandoned the BISP.

The point is simple: Pakistan is a power-driven and power-respecting country, leaving little for the destitute and deprived. Generally, people yearn for having a clout. It is the clout politics that is the main driver of governance in Pakistan and not the welfare of citizens. Name any mafia and find its representatives in the Assemblies. For the same reason, the poor stand disaffected. Tyranny is that Pakistan is still reluctant to tax real estate and the agriculture sectors. Nevertheless, the forthcoming budget would not spare bringing these untaxed or undocumented sectors into the domain of taxed documentation.

Pakistan is failing to understand that the IMF can improve merely the country’s borrowing capacity (by offering international credibility), but the IMF cannot enhance the country’s loan servicing ability. Pakistan has to restructure its economy by resetting earning and spending priorities. To do so, documentation and digitalization are promising ways.

*The writer is a former diplomat and freelance columnist.*