

# Tax and the salaried

BY DR FAISAL BARI

The federal budget is going to be presented to Parliament very soon, though some of its salient features have already been revealed to concerned groups and lobbies. We have been told that no new taxes will be added and some of the corporate taxes will be reduced. This is for the benefit of the business community. There is talk of agricultural credit being provided at cheaper rates. This is for the farmer community. The government has announced that it is going to increase public sector development expenditure. This might provide some direct relief on the poverty and the unemployment front. But where are the salaried classes in all this?

Salaried people have been shortchanged by the government for a long time now. They are in the tax net by virtue of the fact that most of the salaried middle class is either working for the government or are working in the formal sectors and enterprises of the economy. They have their tax deducted at source. In other words they get their salary after the employer has deducted the expected income tax payment. The government does not trust this group, even though the group is well documented and already in the net. The extent of the distrust is such that this group is not even allowed to deposit their tax themselves at the end of the year. This would give more flexibility to the salaried people to move their expenditures around. Instead government takes away their income tax dues forcibly from them every month.

But even more disturbing is the extent of taxation on these people. For the salaried people in the relatively higher income bracket the government takes away 35 percent of their income directly under income tax. Then they pay another 15 percent on the count of sales tax on almost every item they buy. Then they pay additional surcharges on the provision of almost all of the utilities. And to top it all, additional taxation comes in the form of road tax (on car registration), property transfer tax and so on. The entire taxation package comes to about 60 percent of the total income of a salaried person.

In other words, if a salaried person is paid Rs 1000 a month, he pays Rs 350 in direct income tax, which is deducted by his employer at source, he pays another Rs 100 odd in sales tax, and then another Rs 100 odd in all other taxes. This leaves him with a grand total of Rs 450 to spend on all his needs. Is this fair or just?

This level of taxation constitutes a very high ratio of income. And it is especially significant when one thinks of all the people, the agriculturist, the informal sector businessman, the trader, the retailer, and all of the other groups who are either not in the net, or are not as well documented, and so end up paying much less tax. Is it fair to tax the salaried class so heavily then?

The question becomes even more pertinent to ask when one thinks of the other side of the equation. What does the government of Pakistan give to the salaried person in return for this high level of taxation? Most people in this group have private health insurance or go to private health providers



*Part 1*

Salaried people have been shortchanged by the government for a long time. Their entire taxation package comes to about 60 percent of total income. What does the government give to them in return for this high level of taxation?

when the need arises, as they cannot rely on the poor quality, and mostly non-existent, health service that the state provides. Government hospitals are pathetic, and there is no way one can get decent service from them without bribes or without having the right connections.

Similarly most people in this group send their children to private schools and colleges and mostly for the same reason again. Quality in public sector schools is so poor that no relatively better off person can even dream of sending her child to these schools. The same is increasingly the case with public sector colleges and universities too, with only a few exceptions still existing.

The utilities, though still provided by the state, are mostly charged for directly and so they too are not part of the package. The police and judicial services that the state provides are already known to all. Most decent Pakistanis are afraid of the police. They fear the incompetence, the ruthlessness and the corruption of police personnel. Most would be happy if they could spend their life without meeting a Pakistani policeman, and most feel more threatened at police pickets than they would if they were facing Count Dracula. And the tragedy of the whole thing is that the salaried person is actually paying for this harassment and fear. The judicial system of the country is not much different either. Cases take a long time to get decided, and one cannot be sure that truth will indeed prevail in the end.

Of course, the salaried person gets defence of the motherland from the armed forces in return for the taxes he pays. But the less said about that the better. I do not want any nighttime visitors to my house.

Even if the money was being used by the state to help the poorest in the country, the more egalitarian amongst the salaried might still be satisfied with the taxation level. But that too is not happening. While the rich are getting richer, the number of poor is increasing. Unemployment has been going up consistently in the last many years, as has income and asset inequality. If the taxpayers money is not helping the salaried, and it is not helping the deserving people, where is it going and why should the salaried people be taxed so heavily then?

One significant contradiction that has developed in our taxation system and the economic ideology

hat successive governments have been espousing has been between the needs of the state to raise a certain amount of money come what may, and the basic features of a market economy. If one holds, as successive governments in Pakistan have indeed held, that the state should provide education, health, infrastructure and other utilities, at more or less market rates, then the state should not be levying any surcharges on these. In addition if the state is going to give up the responsibility of providing some of these services to the private sector, then the state should reduce its level of taxation accordingly. But where the state has indeed given up its responsibility by reducing services and their quality, and has made prices more cost-based, it has neglected to cut down the tax rate for the salaried class.

The inability to cut back taxes for the salaried has largely been the result of the inability of the state to widen the tax net. Since its efforts to reform the Central Board of Revenue have not amounted to anything, and initiatives like the tax survey have come to naught, it is in no position to give relief to people who are in the tax net. In fact, over the years, by monetising perks like cars and other things, even the net direct-tax levels on the salaried classes have been increased. While the other taxes like the sales tax have also been imposed on most goods that this class consumes. So this has been a many-sided whammy for the salaried class.

At the same time every budget we get calls for sacrifice from the people. In almost all societies the middle-class is considered to be the backbone, and in Pakistan, successive governments, including this one, have ensured that they break the backbone of the middle-class. At one time a Grade 18 officer, a pretty senior government official, a journalist, a university professor, a high school teacher, a senior clerk, and a midlevel banker could raise their family pretty decently in the income they used to earn. But it is no longer possible. The taxation levels, inflation, and deregulation of markets have made it impossible for these people to have a decent white-collar life.

The state should have done something about it a long ago. Instead they have taken every opportunity to tighten the noose. Partly this has been because the salaried are not one group, and they have been unable to articulate their position in any meaningful way, as has been done by other more powerful and coherent groups. Partly it has been due to the ease with which the state can tighten the noose around the necks of people who are already in the tax net. And given the financial constraints of the state, it was inevitable that they squeeze somewhere. Fairness and justice have been a casualty on the way though.

If the government is right that we are ready for takeoff now, have sufficient reserves and fiscal space, and have sufficient slack, then the government should give some relief to the salaried class. They form the bulk of the dying middle-class in Pakistan. They need resuscitation badly, and could do with a few good breaks in the next budget. If they do not get the breaks, and the government continues to squeeze, there will be a significant socio-economic price to pay for the death of the middle-class in Pakistan, and the piper will have to be paid pretty soon now.

E-mail queries and comments to:  
[faisal@nation.com.pk](mailto:faisal@nation.com.pk)