

Towards fewer taxes

By Sultan Ahmed

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FINANCE Minister Shaukat Aziz is back to his old theme song of reducing the number of federal taxes to three — direct tax, import duties and sales tax. The rest of the taxes will be abolished gradually, he says, without indicating a time-limit.

The government is considering this proposal seriously, he says. Three years ago when he became finance minister, he had affirmed the same and added that the number of provincial taxes would be reduced to seven or eight from around 26. The number of provincial taxes has been reduced to some extent, but the incidence of those taxes have been made very high, like the property tax in Sindh, stamp duty and the cost of transfer of property.

Among the federal taxes, he has done away with the wealth tax, reduced import duty under IMF pressure and trimmed some other taxes while at the same time increasing the total amount of revenues. Shaukat Aziz says that to reduce the number of taxes and lower their rates which he has promised, the tax base has to be broadened. The governor of the State Bank, Dr Ishrat Hussain, says the number of taxpayers should be raised to three million, which is ideal. Meanwhile the current number of taxpayers is estimated to be between 1.8 million and 2.3 million.

It is not obvious how the finance minister can slash the number of taxes at one end, along with a reduction in the rate of duties and simultaneously increase the total amount of revenues! That is all the more so as if the tax-base is broadened, the new taxpayers are likely to be small taxpayers and may not add to the cumulative revenues in a big way.

The fact is that of the three taxes mentioned by Mr Shaukat Aziz, the import duty too is likely to yield less amount of revenues under pressure from the WTO and the globalization trends. In fact commerce minister Humayun Akhtar Khan had said earlier that if the import tariff is done away with altogether, Pakistan's economy can flourish and become far more competitive.

In view of such prospects the government is trying to widen the sales tax net further and make it applicable to all forms of sales of wood as well as to the new and old Baara markets. It is also proposing to set up more custom check-posts for expanding the intelligence network. Scanning machines are also to be installed at all airports. All that, along with a reduction in import duties is expected to reduce smuggling and increase the customs revenues. Meanwhile, the CBR expects 300,000 more income taxpayers this year as a result of various vigilance measures.

The increase in revenues as well as the number of taxpayers is to be achieved through a friendly approach to the taxpayers, reduction in the contact between taxpayers and the taxation officers, and the discretionary powers of the CBR officials.

The government is also taking measures to reduce the expenditure particularly by repaying the costly loans, as those of the IMF by borrowing money cheap from the market. It is coming up with a jumbo bond of Rs 30 to Rs 40 billion for 15 years and a foreign exchange

loan of five hundred million dollars.

Simultaneously the anti-corruption measures are being stepped up. The recovery of Rs. 900 million from 14 persons involved in the country's largest fraud case in the Employees Old Age Benefit Institution is a remarkable example of how such corruption has spread in various sectors of the government. In fact the amount involved is much larger, but this much has been recovered by letting the employees seek the benefit of plea-bargaining.

On the same day a former district zakat committee chairman Mirza Mehboob Ali was arrested for large scale misappropriation of zakat funds. The same day's newspapers reported illegal payments of Rs 70 million in the Punjab agriculture department. Investigations by the Punjab Assembly pub-

Among federal taxes, the finance minister has done away with the wealth tax, reduced import duty under IMF pressure and trimmed some other taxes while at the same time increasing the total amount of revenues. However, to reduce the number of taxes and lower their rates the tax base has to be broadened. The number of taxpayers, at present, is estimated to be between 1.8 million and 2.3 million.

lic accounts committee indicate the amount involved may rise to Rs 700 million. All this shows the range and diversity of corruption in the country, and hardly any public body appears to have been spared by the clans of the corrupt.

While public funds are being looted in this manner, Sindh education minister Irfan Marwat reports he has in hand some 14,000 shelter-less schools in the province. There are no boundary walls, roof, or provision of water in these schools. Sindh is famous for its ghost teachers. No wonder, education in the province is making small headway. If the contracts for publishing books were given to favourites of the officers of the education board, the quality of the textbooks is seen to be too low.

While the salaries in most departments are very low, they appear to be pretty high in some departments or for some officers in certain sections. Now the Small and Medium Enterprises Bank has been set up with its branches to help the small investors, but last week the finance minister told the National Assembly that the chairman of the bank was drawing about two lakh rupees a month plus perquisites and privileges and that 17 others in the bank were also getting one lakh rupees per month. Such pay scales came as a surprise to the members of the National Assembly. If little tax is collected and that is misspent, the expectations of the public from the government cannot be fulfilled. The financial world is now witnessing the interesting case of Josef Ackerman, the chief executive of Deutsche Bank, who is considering to resign after he was charged with breach of trust for his role in approving large bonuses to his Mannesmann executives. If convicted Ackerman could face up to five years in jail. Following this development, Deutsche Bank is considering moving out of Germany, as that would be gainful taxation-

wise as well.

In New York the members of the New York stock exchange are calling for the ouster of Kenneth Langone, director of the exchange, after obtaining the premature exit of its chairman Richard Grasso, for giving themselves large retirement benefits.

The world is not in a mood to offer very high salaries for the chief officers after the top executives of Enron and Worldcom were found sadly wanting in the performance of their job. But we in Pakistan go our own way, heedless of the concerns and trends in the world. After the Sindh Assembly was expanded a great deal following the elections, we have in Sindh 13 out of 16 advisers to the chief minister who are unelected. And despite the law that a member of the National or Provincial assembly should be a

graduate, five of the advisers are non-graduate including some non-matriculantes. And they will be getting the same salary and perquisites as other ministers.

If public funds are wasted in this manner and unqualified persons appointed to advise the chief minister, the result can be negative administration which creates more problems than solve any. The outcome is the negative newspaper headlines that we see every day.

In Pakistan people pay taxes not only in the name of taxes, but also under other heads like the surcharge for petrol, for example, which is about Rs. 15 per litre and is no less than a tax, but it is called a surcharge instead of honestly treating it as a tax.

As far as the people are concerned whether they pay the tax directly or indirectly, they want a return for the tax and not more officers in their new Toyota Corolla cars. The government appoints the officers who tend to use the additional resources, but does not care to check whether they deliver or not.

In fact, as far as the people are concerned, the more the officers and staff, the more the corruption and the more the rules, the larger the corruption. What the people want is a government that delivers, beginning with law and order and ending with justice in the courts delivered reasonably quick. If instead they have a government that misgoverns or does not govern at all and lets the forces of chaos prevail and the people fear the police more than the criminals. That is not what they expect in return for taxation, and they will not pay full taxes if there is such an administration. The finance minister may say his business is to collect tax, not to maintain law and order. But as far as the people are concerned it hardly matters. So it is up to the prime minister and the president to make sure that the people get what they want and what they need, and do not fear the instruments of the government as instruments of oppression, and avoid seeking their assistance.

Turning around such a government and making it truly functional is not easy. And paying some of the officials' very high salaries alone is not going to make them effective or more functional as some banks show. What we need is real leadership to make the best of what we have, and meet the needs of the people instead of asking them for more, when there is no certainty of better deliveries.