**Fiscal reforms agenda**

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The Government of Pakistan Tehreek-i-Insaf (PTI), contrary to its election promises, after coming into power, has failed to undertake all-out reforms to restructure the oppressive, outdated and anti-growth taxation, reduce wasteful expenses, promote businesses by reducing cost and concentrating on ease of doing businesses, get rid of loss-bearing state owned enterprises, overcome circular debt and improve productivity and efficiency in all sectors to break out from the vicious [**debt trap**](https://dailytimes.com.pk/681528/digging-deeper-into-debt-trap/). Resultantly, the dream to make Pakistan self-reliant remains unfulfilled.

In the name of reforms, the PTI Government only resorted to patchwork here and there since August 2018. The government has secured record loans, both external and internal and debt servicing alone in first six months of the current fiscal year was up by 15% with fiscal deficit reaching [**Rs 1.4 trillion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf). Total tax revenue collection by Federal Board of Revenue (FBR) from July to December 2020 was [**Rs. 2.2 trillion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf) and after transferring the shares to provinces under 7th NFC Award ([**Rs. 1280 billion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf)), the net available to federal Government of tax and non tax revenue ([**Rs. 861.6 billion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf)) was [**Rs. 1.79 trillion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf) that even could not meet the two major heads, debt servicing ([**Rs. 1475 billion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf)**:** domestic[**Rs. 1357 billion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf)andforeign [**Rs. 118 billion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf)) and defence ([**Rs. 486.5 billion**](http://www.finance.gov.pk/fiscal/July_Dec_2020_21.pdf)).

After coming into power, the coalition government of PTI despite its promise did not implement the tax model suggested in ‘[**Towards Flat, Low-rate, Broad and Predictable Taxes**](http://primeinstitute.org/wp-content/uploads/2016/08/Towards-Flat-Low-rate-Broad-and-Predictable-Taxes.pdf)**’** (PRIME Institute, Islamabad, 2016, now its revised and enlarged version is published in December 2020 available free at: <https://primeinstitute.org/towards-flat-low-rate-broad-and-predictable-taxes/>) that could yield required revenues. This and following studies give step-wise action plan for raising revenues of Rs. 8 trillion at federal level alone:

1. [**Tax Reforms in Pakistan: Historic & Critical View**](https://www.pide.org.pk/pdf/Books/Tax-Reforms-in-Pakistan-Historic-and-Critical-View.pdf), published by Pakistan Institute of Development (PIDE) (available free at: <https://www.pide.org.pk/pdf/Books/Tax-Reforms-in-Pakistan-Historic-and-Critical-View.pdf>
2. Two recent studies of Pakistan Institute of Development Economics (PIDE), [**Doing Taxes Better: Simplify, Open & Grow Economy**](https://www.pide.org.pk/pdf/Policy-Viewpoint-17.pdf)and [**Growth inclusive tax policy: A reform proposal**](https://www.pide.org.pk/Research/Tax-Policy-2020.pdf)
3. [**Fair Taxation for Poverty Reduction & Equality**](http://maketaxfair.net/assets/Fair-Taxation-for-Poverty-by-Dr-Ikram.pdf)(Huzaima & Ikram 2015)—available at <http://maketaxfair.net/assets/Fair-Taxation-for-Poverty-by-Dr-Ikram.pdf>.

Dr. Abdul Hafeez Shaikh, Minister of Finance & Revenue, in post-budget press conference on June 12, 2019, openly admitted that the heaviest taxes in the history of Pakistan were imposed “to qualify for new programme of IMF”. He went on to say that “I am ready to offend people for the sake of collecting Rs. 5503 billon taxes”. While he announced many unjust indirect taxes to make life of the less-privileged and downtrodden further miserable, a generous money whitening scheme was given to the rich and mighty tax evaders and plunderers of national wealth. The have-nots suffering from Covid-19 endemic are still not getting adequate support but tax expenditure of nearly [Rs. 2.5 trillion](https://www.thenews.com.pk/tns/detail/717167-fiscal-deficit-and-tax-expenditure) was incurred by PTI in first two years of its rule.

**In these columns, repeatedly a question is raised: Will the actions desired by World Bank under its US$ 400 million ‘**[**Pakistan Raises Revenue Project**](https://www.worldbank.org/en/news/loans-credits/2019/06/13/pakistan-raises-revenue-project)**’ achieve the fiscal consolidation that is one of the daunting challenges faced by Pakistan**? **In fiscal year 2018-19, total payment, as per budget** [**documents**](http://www.finance.gov.pk/budget/Budget_in_Brief_2019_20.pdf)**, on account of debt servicing, was** **Rs. 1987 billion against the budgeted figure of Rs. 1620 billion. In fiscal year 2019-20, debt servicing by federal government was Rs. 2620 billion (domestic Rs. 2313 billion and foreign Rs. 307 billion) against net revenues of Rs. 3278 billion after transfer to the provinces. Debt servicing was 79% of total net revenues of the federal government and 65% of tax collection of FBR. This is the real dilemma and challenge on the fiscal front faced by Federal Government.**

Successive governments have failed to end harmful tax policies and reduce wasteful expenses. No serious effort has been made by any government, military and civilian alike, to broaden the tax base through lowering of rates and effective enforcement—PTI has also proved that it is no exception and resultantly, it is becoming unpopular as people are feeling the real heat of high cost of living. However, the Government still has a chance that it missed in 2018-2020 to reverse its policies and make Pakistan an egalitarian state by adopting the following measures in the coming budget:

* All individuals having income, taxable or otherwise should be facilitated to file simple tax returns [no wealth statement]. Those earning below taxable limit should be paid income support [negative tax]. Return form should be in English/Urdu/all regional languages. Reporting of real income by all will help create data bank at national level of all citizens. Their earning levels will determine who need to pay income tax and who should be entitled to social benefits under *Ehsaas* etc and how to improve social/economic mobility ending poverty trap.
* For reducing fiscal deficit to the level of 5% of GDP, it is imperative to (i) curtail unproductive and wasteful expenses by 50%, (ii) increase non-tax revenues by leasing out valuable state lands and assets e.g. GORs and palatial government houses etc through public auction, for commercial activities to generate employment and boost economic growth and (iii) taxes at all levels—federal, provincial and local—should be made simple, low rate, broad-based and payable with ease.
* In the next three years, businessmen instead of being overburdened with advance/heavy taxes/duties/other charges should be facilitated by reducing cost of doing business. They should be given tax credits/incentives for compulsorily investing in human resource so we have trained and qualified workforce in all areas.
* We must encourage and offer all possible facilities and incentives to all kinds of entrepreneurs, especially Small & Medium Enterprises (SMEs) with emphasis on growth and productivity instead of more taxes.
* All the governments—federal, provincial and local—should join hands and prepare national level data of all citizens determining their economic and social status. There should be universal pension, social security and food stamps for the needy at the same time empowering them to come out of poverty entrap.
* Through democratic process, Pakistan should establish National Tax Agency having professional expertise in all related fields. This Agency alone can maximize revenue collection having data of all citizens of their incomes/expenditures—it will determine tax obligations as well as identify those who need social support from the State.
* After national debate and taking input from all stakeholders, a simple and low-rate tax system should be devised. Uniform income tax on all incomes, including agricultural income, should be imposed under the exclusive domain of federal government and harmonised sales tax on goods and services should be with the provinces—it will achieve fiscal consolidation and make federal and provincial governments, self-reliant.
* There is need to abolish multiple tax collection agencies. Property tax, vehicle taxes etc should be utilised to meet the needs of local residents by allocating funds to local governments to provide services of health, education, civic amenities of all kinds, and recreation etc.

For the PTI Government, the main challenge on the fiscal front for its remaining term is not only revival of economy amidst human and financial toll of Covid-19 endemic, but also to manage mounting debt burden and empowering the have-nots for sustainable growth and social mobility.

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