**Is Super Tax a Solution to our Financial Problems?**

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In a new attempt to resolve financial troubles facing Pakistan, Prime Minster Shehbaz Sharif’s team announced super tax on a number of selected industries. The intention is to raise an additional Rs. 400 billion ($1.93) to meet IMF requirements to unlock further tranche of funds. But many seem to be in a state of confusion over this sudden imposition of taxes. Naturally, it will impact the large-scale manufacturers and may possibly discourage the business community. What I want to explore is the success of super taxes and the fact if our economic pandits are right about its benefits.

Introduced in the 1979 Income Tax Ordinance, super tax was intended to raise emergency funds to avoid financial crisis or as a penalization tool. However, this is a temporary taxation step that could help expand a country’s tax net. In Pakistan’s case, yes there is a balance of payment emergency that required immediate intervention, but what truly amazes me is that lack of creative solutions towards our deep rooted and age-old economic shortcomings which in my opinion did not require 70 years of struggle.

The government officials believe that their poverty alleviation effort will help support the economy by increasing the tax collection from Rs. 7 trillion to Rs. 7.4 trillion. But a short and quick fix should be the last economic resolve we should be seeking right now. We all saw the immediate impact of this super tax with the Pakistan Stock Exchange falling by 4.8% soon after the announcement came. So much effort is being out into acquire further loans that will only add burden to the already weakening economy.

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Instead, Pakistan urgently needs taxation reforms that expand its tax net for the better. Inclusion of the retail sector on the basis of its declared income should be given a reconsideration which could drastically improve the tax collection. While the current political setup makes the record of highest taxation imposition in a single year, we still do not see a serious commitment towards a permanent solution.

The loop-holes in the taxation system especially on the retailers’ end are so obvious and can be corrected yet ignored. The undocumented economic activity which is a major bleeding source in this system continues to operate in its ineffective old-fashioned way. According to experts, the size of the Pakistan’s undocumented economy could be as much as 56% of the country’s GDP (as of 2019). Therefore, it is not the lack of economic activity in the country that today we face a financial challenge. But a sheer lack of governance capabilities or the indifference to resolve this issue. According to the Income Tax (Amendment) Ordinance 2022 new investment of minimum Rs. 50 million is new industries can be made on a “no-questions” asked basis from undeclared assets till tax year 2021 by paying 5% tax thereon. The ordinance also ensures confidentiality of the information even though this conflicts with the National Accountability Ordinance 1999. Further, encouraging the informal economy.

I have always believed in teaching the youth how to catch the fish instead of giving them free meals. This free loader mindset in our society is only brewing challenges and is damaging us as a sovereign nation. Encouraging skills development, promoting cottage industry through adequate educational and banking sector reforms for funding opportunities could also help us reduce the economic burden.

Pakistan Business Council has already expressed its suspicion on the economic promises made by pointing out to the historical references and contradictory statements, many are still puzzled by the introduction of fixed taxation policy. Therefore, I believe that the current system in Pakistan is regressive, exploitative and anti-growth. Our tax composition relies heavily on indirect taxes putting excess burden on the economy.

The share of direct taxation according to the official sources is only around 39%, showing an increase of 21% from 1990 (18%) till 2019-2020 (39%). The inability of our successive political representatives to simplify and improve tax laws and tax administration is a key contributor to the poor tax collection process. Despite, a constant criticism by the International Monetary Fund (IMF), our priority to introduce taxation reforms seem to be on the back burner.

The key to Pakistan’s tax collection is the successful development and execution of sound tax policy reforms along with tax administrative reforms without which we may never come out of this dilemma. Secondly, the simplification of tax procedures complimented by technology are needed to introduce transparency and ensure a permanent tax collection cycle. Our reliance on corporate income tax is just a fractional element of the revolution we seek. However, all of these will be futile without an effective functioning and dialogue between the state and citizens which could be central to bringing long-term reforms.

While the government may seek to include more industries within the super tax net in the future, our understanding of taxation system needs to go through a drastic overhaul. Therefore, measures such as the super tax are not a definitive answer to our financial challenges.

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