**Return filers potential & enforcement**

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According to a Press release, issued by the Federal Board of Revenue (FBR), on December10, 2020, “A total of nearly 1.8 million returns have been filed together with an amount of about Rs. 22 billion. Last year at this time, 1.73 million returns were filed while about Rs.13.5 billion was deposited as income tax. Comparatively, the returns are higher by 4% and the tax deposited is higher by 63%”. Last year in a Press release issued after the extended date of filing of returns (December 31, 2019), it was claimed that 2,446,294 income tax returns for Tax Year 2019 were received showing increase by “45% compared to 1,687,000 returns filed in Tax Year 2018”.

The figure given for Tax Year 2018 of 1,687,000 in Press release is different from FBR’s Year Book 2018-19 [page 11, Table 7] showing total number at 2,666,256, claiming growth of 42.4% vis-à-vis total returns received for tax year 2017 at 1,797,903. In the latest FBR’s Year Book (2019-20), there is no mention of total income tax returns received for tax year 2019. FBR’s latest Press release of December 9, 2020 also mentions returns for Tax Year 2019 received till December 8, 2018. A Press report claims that “FBR has also failed to bring all 6.5 million Pakistanis who have valid National Tax Numbers (NTNs) in the tax net in tax year 2020”. This report mentions: “In tax year 2019, the FBR had received a total of 2.975 million income tax returns…..FBR said that at least 300,000 taxpayers had sought extension in the date for filing returns, thus taking the number of potential returns to 2.1 million. But the 2.1 million return filers will still be 870,000 or 29% less than the tax year 2019”.

The real significance is quantum of the incremental tax received due to growth in number of tax filers. FBR in Year Book 2018-19 [page 10] claims that the income tax returns were just 1.5 million in Tax Year 2016 but crossed the mark of two million for “the first time in the history of FBR”. It further says that during Tax Year 2017, the number of income tax filers reached to 1.9 million and in Tax Year 2018, 2.2 million. InTax Year 2018, it says the number of return filers increased by 17.1%. It candidly admits:“The performance in terms of number of returns is satisfactory but payment with returnhas a meager growth of 3.0%, which is the matter of concern”. It is thus clear that numerical increase in returns filers for Tax Year 2019 showed negligible growth in revenue.

The poorest of the poor pay 12.5% advance income tax as mobile users but in return do not get even basic facilities of health, education, clean drinking water

The World Bank in its Project Information Document (PID) of April 22, 2019, reported: “While people and firms unregistered as taxpayers… pay income tax withheld on their transactions (e.g., by banks, telecom, and utility companies), the number of taxpayers who file tax returns….remains very small at 1.52 million, while those who declared incomes above the taxable threshold amounted to only 1.12 million in FY2017/18.”
The figure quoted by World Bank for returns filed for tax year 2018 at 1,522,627 against the registered taxpayers with FBR at 4,786,743 does not match with what FBR showed in its Year Book 2018-19 and in its Press release (https://www.fbr.gov.pk/pr/no-further-extension-in-date-of-filing-income/152284).

In FBR’s Year Book 2018-19, total income tax returns received for tax year 2018 were shown as 2,666,256. However, in ‘Tax Directory of all Taxpayers for Tax Year 2018’ as well as in ‘Tax Directory Analysis for Tax Year 2018’, total number of income tax returns received till September 14, 2020 for tax year 2018 are shown at 2,852,349. The increase in tax revenue from new filers is not revealed, despite repeated requests. This is a clear violation of Article 19A of the Constitution, which says: “Every citizen shall have the right to have access to information in all matters of public importance subject to regulation and reasonable restrictions imposed by law”.

It is pertinent to mention that in fiscal year 2019-20, out of total collection of income tax of Rs. 1523 billion, the contribution of 10 top withholding taxes was Rs. 943.6 billion while remaining 56 was Rs. 147.9 billion (total Rs. 1091.5 billion). Advance tax paid was Rs. 351 billion and with returns Rs. 61 billion. FBR collected only Rs. 61 billion (arrears of Rs. 14 billion and out of current demand Rs. 47 billion), which is only 4% of total collection. The major contributors under withholding tax regime are: Contracts (Rs. 237.4), Imports (Rs 199.6 billion), Salaries (Rs. 129.4 billion), Bank interest &amp; securities (Rs. 128.1 billion), Dividend (Rs. 55 billion), Telephone (Rs 54.6 billion), Electricity (Rs. 45.4 billion), Technical Fee (40.1 billion), Exports (Rs. 38.4 billion) and Cash withdrawal (Rs. 15.1 billion)—Table 10, Page 15 of Year Book for 2019-20.

The challenge before the FBR is to enforce the law and get returns from all the taxable persons. According to Special Assistant to the Prime Minister (Minister of State) on Revenue, “around 7.4 million potential tax evaders have been identified”. These potential taxpayers, he said, “have transactions worth billions of rupees, paid withholding tax on the purchase of properties, vehicles, and other luxurious items but refuse to come into the tax net”. He meant that they were not paying due tax or not filing returns. He said that FBR had served &quot;very polite&quot; tax notice to 70,000 biggest asset holders excluding salaried persons. In clear terms, he has admitted the extreme weakness in enforcement wing of FBR. The real potential of income tax filers, as claimed by Dr. Waqar Masood, can be judged from the following:

15 250,000 individuals out of one million filers declared NIL income but were found to have paid Rs. 20 billion in withholding taxes, which means their &quot;transactions are worth over Rs. 200 billion&quot;.

\* The database of 7.4 million National Tax Number (NTN) holders showed that only 2.7 million filed tax returns while 3.7 million did not file returns for the last five years. It was detected that they paid Rs.100 billion in withholding taxes indicating that they were conducting transactions worth billions of rupees.

\* Data obtained from land authorities etc. showed 8.9 million individuals, out of which 7.4 million potential taxpayers are not filing returns.
\* 168,000 out of 272,000 registered sales tax establishments were filing income taxreturns.
\* Out of over 100,000 companies, only 45,000 filed returns.

The above portrays a pathetic situation about voluntarily filing of tax retunes. The poorest of the poor pay 12.5% advance income tax as mobile users but in return do not get even basic facilities of health, education, clean drinking water etc. It also reflects sadly on the efficacy of FBR to tax the rich and mighty despite having information confirming willful default and tall claims to take them to task. The coming days will show whether the FBR succeeds or fails to get income tax returns and due tax from them as in the past such numbers were mentioned time and again but then amnesties were given, rather than punishing the delinquents and recovering due tax from them.

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