**Tax Overreach**

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Well, hopefully, Mr. Dar’s term as the finance czar will end soon. The trouble with clever accountants is that they are generally stubborn and invariably fail to see the larger picture. Pakistan has been de-industrializing, and alarmingly, of late, the undocumented part of its economy has been expanding at a very fast pace. Mr. Dar failed to address either of these issues, and perhaps it would not be unfair to say that his policies have instead stoked these two phenomena rather than arresting them! I wrote last week on how our GST (general sales tax) regime needs urgent reforms, and today I would be discussing how tax overreach is proving counterproductive by pushing people and businesses further away from becoming compliant with the national tax regime.
Ironically, little under a month ago, India convened its 50th meeting of the fresh series of reforms started back in 2020 on the Goods and Services Tax Council (GST). This time, the meeting celebrated the remarkable success it has achieved both in revenues and the number of taxpayers by lowering the slabs and making it easier for people to pay by essentially distancing the tax collector from the payer. The problem occurs when a government devises policies where it is more convenient to be a non-filer. For example, in Pakistan, a tax-compliant business, on average, needs to spend at least 2 hours per day (almost 25% of its working hours) addressing various tax compliance matters, whereas the non-filers have no such issues. The attached cost, of course, is yet another matter and can often be the difference between remaining solvent or going bust. The GST alone at 22% and a direct tax slab when built-in to the costing mechanism can sometimes push the operational difference to as high as 50% between the taxpayers and tax avoiders. Sadly, this is not an exception. There are several examples where compliance and adding value to output is, in fact, discouraged.
For instance, if an individual shops around in cash, he/she can almost get by without paying any taxes because the outlets have a way of accommodating non-taxpayers, whereas if he/she chooses to use his bank card or to carry out the same transaction using an app, he gets taxed. One can simply go on, since the bureaucracy today still relishes in micromanaging taxation in line with the draconian colonial-era affairs, when the purpose was to instill fear into the public in order to fleece them rather than having to serve them. Trust the fleecing part now goes into self-enrichment instead of Raj transfers to London! In fact, it sometimes reminds one of the nightmare of the License Raj era. There was a time when the national Budget speech was dominated by the various changes to the excise levies on commodities — including toothpaste. In short, a Regulatory-Overkill - Just to jog up one’s memory and that this very unhealthy extreme oversight throttled enterprise, distorted investment, and thereby stymied economic growth.
Basically, the old engrained ideology somehow still lives on today that opines that the government can manage resources more efficiently than the private sector and surprisingly this delusion despite messing up nearly every corporation that functions under the state-owned domain? As a result, rent-seeking has become institutionalized and therefore, whether you want to produce heavy industry machinery, nuts and bolts, consumer goods, or name it, to succeed in it, you still have to line up outside the door of the relevant Ministry. The associated laws like the Factories Act also continue to be impractical and just an impediment to the ease of doing business. An industry insider recalled how there was a rule that still theoretically exists where every toilet needed to be white-washed annually. This was kosher till the time that bathroom tiles became an option. Factories that opted for the more efficient alternative were penalized by inspectors. Why? Because they did not have a white-washed toilet facility! Likewise, another rule that requires deleting is requiring factory establishments to provide drinking water in earthen containers with a steel glass secured with a long chain attached to the vessel. Their replacement with a water cooler invited corruption as technically there could be a fine imposed during routine inspections!
Anyway, the past era is a colorful history about how not to conduct public policy, and there one reads the fine prints of many industrial laws, it becomes crystal clear how reforms have been so long overdue. Indeed, this is a perfect time to take a crack at the long-pending tax reforms, particularly with respect to slabs and rates. India’s finance commission, in this latest tax-reforms convening, has proposed a revenue-neutral rate of 12% with minimum slabs in GST, a corporate tax rate of as low as 25%, and an inverse linkage of the tax-related bureaucracy’s performance review to the number of contacts made with the taxpayer. Bangladesh too seems to be moving on the same lines, in fact, a step of India in what its prime minister describes as getting to the ‘right model’ when it comes to taxation. And this may well be also the moment of introspection for us here in Pakistan. One can feel that yet again in efforts to cling to the old ways, the tax authorities are trying hard to push the envelope to minimize revenue leakages, and the finance minister has been buying it. The very assumption of viewing all taxpayers as potential evaders is flawed in itself. The outgoing regime needs to realize that the country is readying for the next general elections, and what people want to truly see is a lot that can somehow resurrect the economy and put Pakistan on the economic high table to get the respect it deserves in the comity of nations. At this juncture, a regulatory overkill by tax authorities could roil public sentiment, already under pressure after a prolonged phase of inflation and economic pain!