**Tax policy development strategy**

[Dr Ikramul Haq](https://dailytimes.com.pk/writer/dr-ikramul-haq/)

February 14, 2021

**Somebody needs to tell the Prime Minister that the iniquitous prescription of the IMF calling for more taxes, austerity and high interest rates will not solve our problems—**[*Reforms without research*](https://www.thenews.com.pk/tns/detail/614381-reforms-without-research)[Huzaima & Ikram, 2020]

This is the last in the series of “tax proposals” sought by the Federal Board of Revenue (FBR) as discussed in [**FBR: Proposals for status quo**](https://dailytimes.com.pk/714057/fbr-proposals-for-status-quo/)**, *Daily Times*, January 17, 2020. As highlighted in earlier articles, in this series [**[**FBR: unconstitutional “legislator”**](https://dailytimes.com.pk/716348/fbr-unconstitutional-legislator/)**, *Daily Times*, January 24, 2020,** [**Paradigm shift in tax policy**](https://dailytimes.com.pk/718872/paradigm-shift-in-tax-policy/)**, *Daily Times*, January 31, 2020 and** [**Fiscal reforms agenda**](https://dailytimes.com.pk/718872/paradigm-shift-in-tax-policy/)**, *Daily Times*, February 7, 2021], our** economic managers never think of using tax policy as a tool for economic development. Their sole stress on increase in revenue targets at the time of making annual budgets, without any strategy for growth and development, has resulted into economic fiasco. This year’s budget will be no different if the sane/authentic voices, research papers and books mentioned in earlier and this article by local researchers are ignored by policymakers.

What a mockery on the part of legislators that they rely on tax collectors to prepare proposed amendments in the existing tax laws, whereas under the Constitution it is their responsibility. The existing complex tax codes and inefficient tax machinery are the main impediments in resource mobilisation and successive governments continue making them more complex, cumbersome and anti-growth. The persistent failure of our economic managers, under civil and military governments alike, to overcome fiscal deficit has pushed the country into [debt enslavement](https://dailytimes.com.pk/537490/breaking-debt-prison-daily-times/). How to come out of it was discussed in [**Breaking ‘debt prison’**](https://dailytimes.com.pk/723497/tax-policy-development-strategy/Fiscal%20reforms%20agenda,%20Daily%20Times,%20February%207,%202021)**, *Daily Times*, January 12, 2020. Those who matter in the land** [ignored](https://www.thenews.com.pk/tns/detail/561090-trapped-enslaved) **it and resultantly we are facing a** disaster on debt front where its servicing alone is eating up 70% of total resources.

The Ministry of Finance in [**Annual Debt Review & Debt Bulletin for FY2019-20**](http://www.finance.gov.pk/dpco/Annual_Debt_Review_Debt_Bulletin_Jun_2020.pdf) complying with section 7 of the [**Fiscal Responsibility and Debt Limitation Act of 2005**](http://www.finance.gov.pk/frdla2005_amended_2016.pdf) covering the second year of the coalition Government of Pakistan Tehreek-i-insaaf (PTI) confesses that total public debt-to-GDP ratio “has increased from 86.1% in June 2019 to 87.2% in June 2020”. The limit fixed in [**Fiscal Responsibility and Debt Limitation Act of 2005**](http://www.finance.gov.pk/frdla2005_amended_2016.pdf) is 60% of GDP. The [solutions](https://www.pide.org.pk/pdf/Books/Tax-Reforms-in-Pakistan-Historic-and-Critical-View.pdf) to overcome [debtocracy](https://fp.brecorder.com/2018/06/20180615382151/) and [enslavement](https://dailytimes.com.pk/312527/a-tax-for-the-poor-that-the-rich-never-paid/?fbclid=IwAR2VQkgXFu8EWM2C9UEzUfv8tciF3HJ7x1GMEXIViDtSk-0KJE1WMCv3AqA) are inclusive of [growth](https://www.pide.org.pk/Research/Tax-Policy-2020.pdf), development of natural and human resources, [drastic cut in wasteful expenses](https://www.pide.org.pk/pdf/Policy-Viewpoint-17.pdf), [fundamental structural reforms](https://dailytimes.com.pk/660809/modernising-reforming-fbr/) for [good governance](https://dailytimes.com.pk/428821/governance-at-its-best-part-i/), [fair taxation](https://www.thenews.com.pk/tns/detail/561090-trapped-enslaved) that is [beneficial](https://dailytimes.com.pk/433284/governance-at-its-best-part-ii/) for masses at [local government](https://fp.brecorder.com/2019/02/20190215447228/) level and [self-reliance](https://www.thenews.com.pk/tns/detail/567038-debt-taxes-self-reliance).

Our economic survival now lies in a paradigm shift in fiscal policy. The collection of fair taxes wherever due, by abandoning the policy of appeasement towards the powerful and the rich by extending exemptions, concessions, waivers and tax amnesties, is a perquisite for rule of law and socio-economic justice that is basis of inclusive and equitable growth. At the same, it is essential to dismantle [elitist structures](https://fp.brecorder.com/2013/07/201307261214993/) and utilise expensive state lands in the heart of cities, occupied by privileged classes, that should be leased out for commercial purposes to earn billions and provide jobs to millions.

The have-nots, instead of hooked on meagre [cash handouts](https://www.pass.gov.pk/Detail845ae76f-4161-4d46-8452-ab8805d1f953#:~:text=The%20Prime%20Minister%20launched%20an,the%20Ehsaas%20Emergency%20Cash%20program.) from [**Ehsaas**](https://www.pass.gov.pk/Detail845ae76f-4161-4d46-8452-ab8805d1f953#:~:text=The%20Prime%20Minister%20launched%20an,the%20Ehsaas%20Emergency%20Cash%20program.) and others, must be trained in various vocations to become self-reliant as well as participants of growth and not just liabilities forever. Tax incentives should be used to induce investments in human resource and infrastructure development, rather than free and concessional plots to judges, generals and civil servants in grades 21 and 22. Agricultural land is a tremendous source to ensure food security, provide jobs to millions and create exportable surplus of billions of dollars as well as rapid industrialisation through value-added agro-based industries, for which comprehensive plan is given by Mr. [Asif Sharif](https://www.researchgate.net/scientific-contributions/Asif-Sharif-2059133134) and quoted in [**System of crop intensification for more productive, resource-conserving, climate-resilient, and sustainable agriculture: experience with diverse crops in varying agroecologies**](https://core.ac.uk/download/pdf/161508537.pdf), published by [International Journal of Agricultural Sustainability](https://core.ac.uk/download/pdf/161508537.pdf) [see further details in [**Sustainable farming**](https://www.dawn.com/news/1582211)].

Taxes affect growth in two ways. First, by influencing the aggregate supply of the main factors of production by raising or lowering their net (after tax) returns; and second, by influencing the efficiency of resource utilisation (total factor productivity). We keep on saying that low tax-to-GDP ratio is our main problem, whereas the reality is that agriculture sector having 20% share in GDP contributes negligibly in direct tax collection and tax expenditure is as high as 40% of total tax collection at national level! Lotz and Morssan [analysed](https://www.journals.uchicago.edu/doi/10.1086/450436) a sample of 72 developed and developing countries to examine the relationship between tax ratio variations and differences in per capita income and degree of openness. The sample included a wide spectrum of dissimilar economies ranging from Nepal to Singapore. They prove that it is erroneous to compare Nepal’s high rural and agricultural economy with a high commercial and industrial city-state of Singapore.

The higher ratio for industrialized countries is primarily due to the higher level of revenue from social security, payroll taxes, corporate taxes and taxes on domestic consumption while taxes from international trade and non-tax revenue are lower. In contrast, Pakistan, like many developing countries, gets the major portion of revenue from indirect taxes, particularly taxes on international trade and domestic consumption, while direct taxes have a lower share. Tax increases with growth and present system of multiple taxes (mostly collected at import stage and/or advance tax including dozens of withholding tax provisions) and fragmented administrations to collect the same are the few impediments for economy to grow. An unshakable determination, consistency and political will are required to dismantle harmful and growth-slayer tax policies and to revamp the entire tax administration as elaborated 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 is available free at: <https://primeinstitute.org/towards-flat-low-rate-broad-and-predictable-taxes/>), [**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> and 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).

In the coming budget the PTI Government must devise a tax policy based on research cited above so it can be a catalyst for development. The primary function of a tax system is to raise revenue for the government for its public expenditure as well as for local authorities and similar public bodies. So the first goal in development strategy as regards taxation policy is to ensure that this function is discharged effectively. Performance of the Pakistani tax managers is highly disappointing as fiscal deficit in the last two years was over 9% of GDP if losses of Public Sector Enterprise (PSEs) and circular debt and blocked refunds by FBR are also taken into account. It has remained high during the last many decades as the tax targets fixed annually for FBR were revised downwards many a times while budgeted expenditures exceeded many times [see [**Fiscal Policy Statement 2021**](http://www.finance.gov.pk/publications/FPS_2020_2021.pdf) issued by Finance Division of Ministry of Finance].

*The writer, Advocate Supreme Court, is Adjunct Faculty at Lahore University of Management Sciences (LUMS)*