**Taxes & Revenues**

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 The first thing the interim finance minister called for was an increase in revenues. However, this brings us back to the same old question: how should it be done? Tax the taxed and/or keep on flogging the ex­hausted donkey, or expand the tax base by tackling the sacred and expanding the pot by fa­cilitating economic activity. So, what should be done? Once again, we do not have to reinvent the wheel, but simply look over our shoulders and see how regional leaders India and Bangladesh have been grow­ing their tax base.

First and foremost, growing the digi­tal footprint of the population has been accompanied by the will to use it indis­criminately but judiciously. In the case of India, they have lately focused on the GST (Goods & Services Tax) and lev­eraged its digitised transactional val­ue to in turn spur the nation’s tax-to-GDP ratio. In my previous article, I had explained how the new-generation re­forms in the GST system itself have ben­efited India by growing its registered GST taxpayers by almost 250% in less than 3 years. This surge in trouble-free ‘formal’ transactions has encouraged more and more people to enter the doc­umented sector from the undocumented one. However, it does not automatically entail that growth in the base of direct taxes will mean higher revenues. Not ev­eryone who files an ITR is necessarily paying income tax. For instance, in the case of ITRs filed for 2022-23, the FBR can gauge that almost more than half re­port zero tax liability.

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Clearly, the structural shift begins when the government starts going after the errant taxpayers and, more impor­tantly, after the tax evaders by follow­ing the audit trails emanating from the GST. Ironically, Pakistan deliberately al­lows this trail to go cold by legally allow­ing a category of unregistered taxpayers or non-filers - something unheard of in any other part of the world! Also, what the revenue collectors have to sell is that the audit trails of digital transactions are not just for catching the evaders, but an audit stamp by the government will au­thenticate a firm’s or individual’s crucial data that can be harvested for economic advantage - say, in availing credit.

For example, if India’s evolving tax sys­tem is providing an impetus to formalisa­tion, then its digital economy is not only greasing the economy but is also accel­erating formalisation and taking more people out of the informal economy by, in fact, helping them secure business growth. And this element is so important, you may ask: because it makes people real stakeholders in the well-being of a country’s economy. From being invisible, they are transforming into visible eco­nomic entities. A win-win situation.

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In other words, to incentivise people to look inside rather than outside. Not only does this potentially improve the lot of those who have joined the formal economy, but they remain invested in growth and revenue generation for the state. Also, in Bangladesh, the outcomes of experiments with digital public goods (DPGs) have been dramatic. Initiatives that paved the way for eKYC, because of which almost 75 million received a bank account in 10 years—achieving some­thing that could not be managed until 2013 from 1947. Linked to their mobile and the government records, this move doubled up as an economic GPS to re­ceive targeted social welfare spending through Direct Benefits Transfers (DBT).

So for the government, this paved the way for, in turn, launching nearly 100 different schemes supported by verifi­able data to help individuals, start-ups, and SMEs with an unprecedented lay out of almost 600 Billion Takas over the same period. This economic digitisation and transparency alone saved immense­ly by the elimination of leakages—cumu­latively saving the national exchequer approximately 40 billion Takas. What this proliferation of the digital economy has done is to create a massive digital highway - populated by transactions un­dertaken by a large segment of Bangla­deshis. Indeed, this is nothing then but a valuable digital database that could be leveraged for public good.

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In principle, two things come to light when studying the revenue growth suc­cesses in India & Bangladesh: One, the formalisation of the economy tends to be the key and something that has rap­idly grown in both countries. In gen­eral, almost in parallel for both econo­mies, the documented sector in the last 6 years has grown at an annual pace of around 15% (on admittedly lower bas­es), and the informal has been shrink­ing at a pace of about 10% per year. Im­portantly, the trend has been moving in the right direction. Second, in both cases, this formalisation is spreading equitable gains by touching families and areas that were largely bypassed previously.

Improved access to basics like electric­ity, housing, banking, and so on has only strengthened the process itself and the people’s belief in the revenue collector as a facilitator rather than a corruption-ridden extortionist! Clearly, this element primarily has been the real makeover of these two emerging economies!