**Taxing the poor, favouring the rich**

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The shrinking share of direct taxes in overall collection is a serious cause of concern. It is now well-established that there is a direct link between growing poverty in Pakistan and distortion in tax base since 1991-92, when a major shift was made by introducing presumptive taxes (indirect taxes in the garb of income tax). Tax system was made worse in 2019 by making tax withheld on many incomes, receipts, investments, expenditure and transactions as “minimum” in utter violation of the Constitution and judgement of the Supreme Court in Elahi Cotton Mills Ltd &amp; Others v Federation of Pakistan &amp; Others.

The rich and mighty, on the other hand, not only get frequent amnesties but also pass on their tax burden on the end consumers/clients.

135 rich Pakistani tax evaders availed the 2018 amnesty scheme of the Pakistan Muslim League (Nawaz) declaring Rs. 62.4 billion in assets. They paid only Rs. 2.9 billion as tax, getting a relief of Rs. 40.8 billion, as actual liability without the amnesty was Rs. 43.7 billion. About 56 persons availed the 2019 amnesty scheme of Government of Pakistan Tehreek-i-Insaf (PTI) and declared assets worth Rs. 31.8 billion. They paid only Rs. 1.7 billion getting relief of Rs. 20.6 billion. Of the remaining cases, the Federal Board of Revenue (FBR) assessed 115 cases, creating and recovering a demand of Rs. 4 billion.

The total tax collection in 325 cases against US$ 5.5 billion worth of foreign assets was only Rs. 5.6 billion or 0.64% of undeclared assets. This unprecedented favour given by PMLN and PTI Governments to the rich and mighty exposes their claim of taxing the rich. On the contrary, about 80 million, not earning taxable income, are forced to pay 12.5% advance income tax as mobile users! This is the extreme injustice one can think of in any society, especially when the Prime Minister claims to make Pakistan a welfare state!

The lack of judicious balance between direct and indirect taxes has pushed an overwhelming majority of Pakistanis below the poverty line. The latest data at website of Pakistan Telecommunication Authority ( PTA ) shows the total number of subscribers as on August 31, 2020 at 169 million, out of which 85 million are 3G/4G subscribers, 3 million basic telephony users and 87 million having broadband facility. About 100 million of them (many have more than one number) pay advance income tax of 12.5%.

The overwhelming majority of them do not come within the ambit of income tax, yet the PTI Government, like its predecessors, is engaged in malicious propaganda that people of Pakistan are tax cheat. This is highly lamentable. The same is the case with 4 million commercial electricity users, subjected to advance income tax and sales tax.

For everything blame cannot be placed on officials of FBR. Successive governments, including the present one, have been giving amnesties, waivers, exemptions and asset whitening facilities that have eroded the tax collection

Income tax collected up to annual electricity bill of Rs. 360,000, except for companies, is the minimum liability, not refundable even if income is below taxable limit.

In the latest FBR Year Book for 2019-20, there is no mention of how much income tax was paid by the top 10% rich Pakistanis. The rich legislators [having average net wealth of US$ 900,000] as per declarations filed with Election Commission of Pakistan for June 30, 2020, paid only 0.04% of total income tax collection. According to  World Ultra Wealth Report 2020 , issued on October 7, 2020, Pakistan is among the countries with top 10 fastest growing population of ultra-high-net-worth (UHNW) individuals over the last 15 years. Their contribution in income tax is pathetically low. In the last 5 years, according to FBR’s data, less than 25,000 individuals declared taxable income exceeding Rs. 6,000,000! Further details can be seen in Rich legislators of a poor nation , Daily Times, November 15, 2020.

The higher ratio of direct tax in the industrialised countries is primarily due to the higher level of revenue from social security, payroll taxes, corporate taxes and taxes on domestic on consumption, while the taxes from international trade and non-tax revenue are lower.

In contrast, in the developing countries, the major portion of revenue comes from indirect taxes, particularly taxes on international trade and domestic consumption, while the direct taxes have a lower share. In Pakistan, the situation is even worse than most of such countries, as about 50% taxes are collected at import stage!

The average share of direct tax and indirect tax during the last 10 years is 35 % and 65 % respectively [Page 9 of FBR Year Book for 2019-20 ]. In income tax collection from financial year 2010-11 to 2019-20, the element of presumptive tax (indirect tax in the garb of direct tax being full and final liability) was 20%. This proves beyond any doubt that the average share of direct taxes in last 10 years was only 15% and not 35% as claimed by FBR in FBR Year Book for 2019-20 . This confirms where the incidence of taxes actually lies—not on the rich, but the middle-class, people with fixed income and the poor earning income below the taxable limit by paying advance income tax on mobile use and small businessmen having commercial electricity connections. This also proves the oppressive tax policies of successive governments since 1991-92 destroying growth.

Non-collection of due agricultural income from rich absentee landowners, the wealth concentrated in the hands of privileged few, The generals, judges and officers in grade 21 and 22 also get plots, free or at concessional rate, at lucrative locations, which overwhelming majority sells and amasses enormous wealth that is used for earning more profits by investing in tax-free avenues.

For everything blame cannot be placed on officials of FBR. Successive governments, including the present one, have been giving amnesties, waivers, exemptions and asset whitening facilities that have eroded the tax collection. In fiscal year 2019-2020, total tax expenditure was of Rs. 1.5 trillion ( Annex-II appended to Economic Survey 2019-20 ). If only 40% of taxes waived/forgone in fiscal year 2019-20 were recouped vide Finance Act 2020, there would have been a fiscal space of Rs. 600 billion to reduce taxes. However, the PTI Government showed apathy towards the weaker sections of society and small/medium enterprises (SMEs), facing the unbearable toll of Covid-19 outbreak/lockdown by not reducing exorbitant sales tax, withholding taxes, advance tax, and high cost of utilities. This can still be done through supplementary Finance Bill.

The burden of indirect taxes is passed on to the end consumers that take a very small portion of a rich man’s enormous income and a large slice of poor man’s meagre earning.

Since 1991-92, these oppressive taxes have made tax system unjust, widening the divide between the rich and the poor. The heavy toll of indirect taxation [even under the garb of income taxation through presumptive tax and minimum tax regimes] without evaluating its impact on the economy and lives of the masses is a deplorable policy, especially when the poor are facing immense financial difficulties due to high food inflation and unbearable utilities bills amidst contraction in incomes due to complete/partial lockdowns in the wake of Covid-19 endemic.

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