Thieves of state

BY R A S H I D J A V A I D R A N A | 1/1/2020

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| DO we really have a tax base? This is a million-dollar question, with responses akin to that of the parable of blind men interpreting an elephant. Some are of the view that only a fractional percentage of income earners are tax declarants; some regard that the majority of the population is paying taxes in one form or another as their tax either is deducted while consuming goods and services or withdrawing their salaries. The truth is that our policy options have never been based on using econometrics to develop a vibrant tax base. Amnesties introduced in the past have not succeeded in developing a robust tax base for our country. The unholy alliance of the black economy and tax evasion has proportionally distorted our revenue collection and continues to go hand in hand.  Tax evasion is the illegal practice of not paying taxes owed by not reporting or misreporting of income, expenses or sales related to economic activities. The act of not paying taxes challenges the writ of the government and is considered an offence against society, and has therefore been made punishable in almost all jurisdictions.  The terms `tax evasion` and `tax fraud` are used interchangeably. In order to constitute this offence, like all other offences punishable under criminal laws, a person must do or cause to be done some act or omission knowingly, dishonestly, fraudulently or with mala fide intent, which causes loss to the exchequer. So, unlike tax avoidance, tax evasion is an offence.  Tax evasion is the largest economic crime in the world. In terms of global monetary loss, it costs trillions of dollars to governments across the globe. According to one estimate, $3 trillion worth of tax evasion occurs worldwide almost 5 per cent of the global GDP.  The EU loses an estimated 200 billion annually in VAT evasion. In countries like Sweden and Japan, the revenue lost to tax evasion amounts to 4-5pc of their GDPs. Brazil collects $0.6 and Pakistan $0.3 for every tax dollar that should have been collected.  Tax evasion has three manifestations.  The first is filing compliance, as one is legally obligated to file a declaration (tax return). A major portion of our tax evasion is covered by failure to file, as a substantial portion of the economy remains undocumented. The second is reporting compliance, ie filing a declaration but underreporting by intentionally suppressing one`s actual profits, assets or turnover. The third is payment compliance, whereby one complies with filing and reporting but does not pay their actual liabilities.  Poor enforcement of laws has always resulted in growing tax evasion. When law enforcement agencies become oblivious of this fact, evasion is bound to increase toalarming proportions. Substantial portions of every tax statute, including our Income Tax Ordinance 2001, Sales Tax Act 1990, Federal Excise Act 2005 and other provincial enactments on Sales Tax on Services are replete with provisions that empower the authorities to deal with tax fraudsters. These laws have provided the mandate and procedures for apprehending and prosecuting such economic thieves of the state before the courts of law.  Yet these provisions are either overlooked or paid little attention to, rendering them practically redundant. The reasons that this portion of law is merely used for providing building material for constituting voluminous tax statutes need to be explored.  One thing is certain; fraudsters remain undeterred by these semi-implemented tax laws.  Moreover, our reliance on donors for fiscal stability, frequent amnesties for political gains and poorly conceived exemption regimes have made the fairness and equitability of our policymaking questionable.  `BTB` (broadening of tax base) has become amere buzzword in the echelons of power.  We need to extend serious efforts to develop an authentic and digitally integrated tax database in order to ensure filing compliance anddecrease tax evasion, along with following the money trails and conducting prosecutions of such economic thieves.  The vigorous campaign to reform revenue collection may not prove fruitful without understanding prevailing symptoms such as the lack of societal tax culture, absence of equitable and transparent government spending, and obviously weak enforcement by the tax authorities. The prevailing poverty and socioeconomic conditions, shortfall in revenue collection, and undeterred economic thieves put a heavy responsibility on the shoulders of fiscal law enforcers.  Firefighting and stopgap arrangements needtobesubstitutedwithwell-articulated and researched policy solutions. The low degree of accountability of expenditures has made the revenue collection system more vulnerable to frequent restructuring.  Placing responsibility to bridge the widening gap between revenue and expenditure on the shoulders of FBR alone will not prove successful.  The writer is a civil servant.  rjranag@gmail.com Twitter: @rashidjavedrana |