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# Proposals for the Next Budget

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Even amongst developing countries Pakistan is in the bottom ranked nations, with less than 5% of households registered as tax payers. There is rampant tax evasion, partly with the collusion of the official machinery. Revenues can be raised through broadening of bases, improving the equity of the tax regime, incentivizing documentation, checking evasion by embracing a zero-tolerance policy, checking harassment of, or collusion with, taxpayers by simplifying tax returns and making FBR a faceless bureaucracy, with interaction between taxpayers and tax officials limited through greater reliance on automated computerized systems.

In the opinion of this writer the general tax reforms would include:

a) Taxation of all incomes of same levels equally, irrespective of source.
b) Legislation that renders Benami Transactions illegal.
c) To send a clear signal of no-tolerance all Cabinet Ministers should be subjected to a detailed tax scrutiny throughout their period of office.
d) Making public tax returns and Wealth Statements of all parliamentarians and holders of key public offices and their spouses (including Secretaries, Chief Justices, Chief of Army Staff, Governor State Bank, Auditor and Attorney Generals) during period of office and one year thereafter.
e) There should be greater dependence on technology tracking commercial transactions to identify potential tax evaders.
a) The FBR should periodically reconcile provincial property tax registers, credit card holders and members of private clubs with those allotted National Tax Numbers.
b) Learning from the implementation of various initiatives to mobilize resources and encourage documentation all presumptive taxes should be replaced by withholding taxes. And the rates of such taxes should be increased by at least two percentage points to incentivize documentation, penalizing those trying to avoid capture in the tax net.
c) To incentivize value-added exports the tax rate on the receipts of exports of products like cotton, yarn, etc should be raised to 2%, retaining the 1% rate for exports of finished products like cotton and leather garments, shoes, carpets, etc.
d) To prevent tax arbitrage by major shareholder executives the tax differential between the highest individual tax rate and the corporate income tax rate should be eliminated.
e) For individuals there should be a Minimum Asset Tax of 2% to be allowed as a tax credit; this way all large farmers will end up paying some tax.

f) Consider re-introducing the scheme whereby unlisted companies paying a 20% higher tax (15% in the case of listed companies) than that paid in the previous year would be exempted from audit. Adequate safeguards can be built into the system to disincentive abuse by entrepreneurs- closing down of existing companies and starting new ones.

g) Bills in excess of Rs.20,000 per month of domestic and all bills of commercial consumers of electricity should be subject to a withholding tax of 10% and 15% respectively.

h) Withholding tax on cash withdrawals should be abolished to incentivize the entry of the Rs. 2.2 trillion currency in circulation into the banking system thereby helping lower the government's debt servicing costs. The net tax collection on cash withdrawals is much lower than the likely saving on debt servicing costs.

**i)** To incentivize formal transactions, the rate of GST for registered entities should be 12.5% with the unregistered paying the current rate.

a) There are different rates of import duties on the same item depending on the consuming industry, creating opportunities for "extracting rent". The tariff structure should be simplified by considering a system of "one-chapter one-rate"; although ideally we should gradually shift to a single uniform rate on all imports.

On administrative measures, the focus should be a) on improving the quality of FBR's data warehouse and IT systems; b) ensuring that taxes collected by "withholding agents" or GST from the end consumer are eventually deposited in governments coffers- by initiating a lottery for hotel and restaurant sales tax paid bills furnished by consumers.

However, the bigger problem is the expenditure side of the equation. It is a black hole because of poor prioritization, corruption and sheer waste. Our political, military and bureaucratic leadership treats public money as its own, without ordinary citizens gaining much from such spending.

Even the miserable amount spent on development is driven by politicians, contractors and corrupt officials and, for the most part, suffers from leakages and lack of transparency in procurement processes with no accountability for unsatisfactory impact. Project staff, related or connected to important decision makers get hired while cars, mobile phones and laptops and other equipment is procured years before the real work starts. These gadgets end up in their homes, with maintenance paid by the project, while those recruited for the life of the project get a job almost for life since the scheme never gets completed!

The overstaffing in public sector agencies and the salaries, perks and privileges (cars, housing, etc.) of elected representatives and civil, military and judicial officials is a huge drain on scarce resources.

So what are the reforms that need to be made?

a) Following the 18th Amendment the number of Federal ministries need to be drastically reduced while all VIP privileges such as planes, bullet proof cars (except for those facing high security risk), Hajj/Umra on government expense should be withdrawn. In future, all travel of less than 5 hours should be in economy class.

b) Henceforth, official cars for ministers and civil, military and judiciary officials, and should be 1300 cc cars.

c) Housing for all officials should be eliminated in 5 years and if provided it should be in the form of apartments.

d) All producer related subsidies e.g. on wheat, fertilizer, sugar, etc. should be in the provincial budgets, based on their respective priorities.

e) The Federal Government should only fund inter-provincial projects (National Highways, Energy generation) shifting resources to higher priority areas, i.e. energy and railways, from lower priority programs, i.e. airports, roads.

f) Each procurement award for contracts over Rs 25 million should be made in the presence of the media with bid evaluations posted on the PPRA website.