Tax-to-GDP ratio varies between 8.5-9.5 percent in eight years

RECORDER REPORT ISLAMABAD (June 03, 2014) : The tax-to-GDP ratio remained narrow and varied between 8.5 to 9.5 percent during the past eight years despite an increase in revenue collection, Economic Survey (2013-14) revealed here on Monday. According to the Economic Survey, the tax-to-GDP ratio will be increased from the lowest level of 8.7 percent to 15 percent over the few years. Unfortunately, Pakistan's tax system has not been stabilised as evident from the historical data. Structural weaknesses like narrow tax base, massive tax evasion and administrative weaknesses significantly undermined the overall tax collection as the country has witnessed a low total tax-to GDP ratio. Despite the increase in tax revenues, FBR tax to GDP ratio remained narrow and varied between 8.5 to 9.5 percent during the past 8 years. Pakistan's tax structure has witnessed extensive changes over the years as the share of direct tax increased from 31.5 percent in 2005-06 to 38.2 percent in 2012-13 and is expected to increase further to 39.4 percent in 2013-14. On the other hand, share of Sales tax in total tax collection increased from 41.3 percent in 2005-06 to 43.3 percent in 2012-13 and is expected to reduce to 42.6 percent. Custom duty in indirect taxes has reduced from 28.3 percent in 2005-06 to 19.9 percent in 2012-13 and expected to reduce further to 18.6 percent in 2013-14. While share of Federal excise duty in indirect taxes has declined from 11.3 percent in 2005-06 to 10.1 percent in 2012-13 and expected to increase to 11.1 percent in 2013-14. Sales tax as an important consumption tax accounts for 70.3 percent of indirect tax. In the above scenario, the government is sternly focused on developing revenue mobilisation strategy particularly through formulating an effective tax system in order to create fiscal space. Present government is determined to enhance resource mobilisation efforts in the country and increase tax to GDP ratio from the lowest level of 8.7 percent to 15 percent in the next few years. For this purpose, a comprehensive strategy is being devised which comprises of three broad categories such as: a) broadening of tax base, b) removing anomalies in the taxation system and c) improving tax compliance. It said that for broadening the tax base, several initiatives have been taken and some are in pipeline. Initially, the objective is to incorporate 300,000 new taxpayers. In this regard, more than 80,000 notices have already been issued, and a total of 100,000 notices will be issued by June 30, 2014. Similarly, a detailed plan for outreach program including provisional assessment, collection procedures, penal actions and prosecution proceedings has been chalked out. In order to provide level playing field and equitable tax system in the country FBR has devised a plan for rationalisation of concessionary regime and withdrawal of exemptions. The plan has been approved by the government and is being implemented. It said that the initiatives for administrative improvement in all the taxes have been finalised and implementation strategy is developed and launched. Certain policy reforms have already been taken and GST coverage has been expanded. Exemptions have been restricted to food items, health, education and agriculture produce. To resolve issues relating to sales tax FBR has successfully prepared and implemented Computerised Risk Based Evaluation of Sales Tax (CREST). Another major step has been the development of a fully automated sales tax refund processing system for manufacturers/exporters where refund claims are processed within 48 hours. Sales tax refund cheque issuance has been centralised at FBR HQ to guarantee that cheques are issued to taxpayers within seven days of clearance of claims and to reduce refund pendency, Economic Survey added. The survey sad that the introduction of an e-filing process accessible to taxpayers for income tax, sales tax and excise at e-FBR portal has been ensured. Automation of systems has helped in minimising the contact between taxpayer and tax officer and as a consequence the complaints of harassment has been reduced accordingly. The compliance has been made easier through simplicity of procedures and introduction of an e-filing process accessible by taxpayers for income lax, sales tax and excise at e-FBR portal. Automation of systems has helped in minimising the contact between taxpayer and tax officer and as a consequence the element of harassing has been reduced accordingly. A risk based audit has been reintroduced to accompany the self-assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of the Integrated Tax Management System (ITMS) which is available to all the field formations, it said. Customs modernisation reforms are being introduced, aiming at simplifying, standardising and automating customs clearance procedures supported with strong post-clearance audit controls. Online connectivity of customs posts has been developed. Risk management principles have been adopted and a Vehicle and Container Tracking System for monitoring transit trade is being procured. The Afghan Pakistan Transit Trade Agreement (APTTA) 2010 has replaced the 1965 agreement, with better controls and enhanced facilitation. An integrated, risk-based automated customs clearance system (WEBOC) has been indigenously developed which minimises interaction between taxpayers and tax collectors, thereby minimising the malpractices. Human Resource Management has been improved and major structural initiatives are being taken by ERR in its organisational reform program, it added. 