

EDITORIAL: The budget is just around the corner, which makes this the time when the finance ministry is flooded with proposals from other ministries as well as trade and tax bodies.

And even though its hands are pretty tied this year, considering we're in the thick of an IMF (International Monetary Fund) programme and also on the brink of default, it must still give special attention to the tax target and how FBR (Federal Board of Revenue) will go about achieving it.

As such, the proposal from the Pakistan Business Council (PBC), which calls for a "realistic" tax target, use of stock market data to document new taxpayers, simplification of the withholding tax regime, and reduction of the 'future sales tax' deserve special attention.

It sounds simple enough, but there is a very strong case for abandoning the ministry's usual way of setting the tax revenue collection target and indeed making it more "realistic".

The biggest problem which has gone completely unaddressed so far is that the tax target is set arbitrarily, mostly to suit the growth target – which is often set just as subjectively – instead of basing it on the fundamental resource position of the real economy. And as each fiscal year progresses and the collection falls behind the target, the government is left with no option but to increase the burden on existing taxpayers. And this cycle goes on and on.

PBC brings together some of the biggest and brightest businesses in the country, including multinationals, who can give a much more quantified breakdown of the burden on businesses of the combined pressures of a continuously weakening rupee and a very skewed and unfair tax structure than the finance ministry, so its suggestions merit very careful consideration.

Granted, the government has very little independence, especially when the Fund is being extremely strict about its "upfront conditions", and there's still a very fine line to walk before the 9th review of the EFF (Extended Fund Facility) can be cleared. But since taxes and subsidies are at the heart of the paralysis that has kept the bailout programme from progressing, causing severe damage to the economy and the people, there is a good case for reforming the entire tax system and structure to improve overall revenue collection and impress the IMF enough to squeeze a little more elbow room in policymaking.

The argument that FBR needs significant improvements in its structure, resources and technology to be able to set practical targets goes back many years. Yet each year it is given a random number and expected to go after it blindly; and each time it falls short of it.

Perhaps now, when the situation is so precarious that the slightest misstep could run us afoul of the IMF and push us over the edge into sovereign default, the government will be forced to make it more efficient. It must seriously consider ideas to set different rates for existing and new taxpayers and PBC's recommendation that timelines should be specified for the applicability of super tax, since mere levy amounts to simply increasing the corporate tax rate and rendering more businesses uncompetitive.

These are good, workable ideas that should be followed through. Yet if the past is any guide they will most likely be brushed under the carpet as the finance ministry stubbornly sticks to its old tried and failed practices, even at the cost of putting additional strain on the problematic relationship with the IMF. Eventually, though, FBR will have to be reformed. And since it is going to be a long process, the sooner it starts the better for everybody.