was introduced benefitting the rich. Total tax saving by him/her in 22 years is more than Rs. 122 million. In contrast, a widow, who is earning a paltry income of Rs. 390,000 per annum from the same source, investing her deceased husband’s gratuity in a national saving scheme or a bank account to make both ends meet, has had to pay tax of Rs. 39,000 although her income maybe below taxable limits or marginally taxable. In 22 years, she would have paid Rs. 858,000. This kind of tax system creates economic disparities by benefiting the rich.

What is driving fiscal injustices?

The nexus of wealth concentration; capture of resources and government power including parliament are the major challenges. Tax laws made by powerful elites allow loopholes, making concessions legal. This vicious cycle in which power creating loopholes in tax system in order to draw wealth through illegal means—in turn uses same wealth to strengthen power—is a major cause of rising inequalities.

Pro-rich tax exemptions are unfair and undermine revenues

The tax codes of Pakistan are operated and controlled through executive orders called statutory regulatory orders (SROs). In many cases, these SROs give exemptions and concessions to the rich, distorting the entire tax base and aligned with shifting the burden of tax on the poor. Federal Government—in real terms FBR—is empowered to exempt any income or specific persons from income tax, prescribe special reduced rates of tax for certain persons or allow a reduction in tax liability by making amendments in the Second Schedule to the Income Tax Ordinance, 2001. The FBR under the existing income law since 2002 has inserted a number of exemption clauses in the Second Schedule to the Ordinance. The sales tax and federal excise laws are also infected with numerous exemptions and concessions. Some examples of tax concessions are:

1. withdrawal of the biggest new revenue spinner—1% withholding tax on manufacturing—resulting in a revenue loss of Rs. 18 billion.
2. drastic cut of federal excise duty on sugar to 0.5% aimed at benefiting the influential sugar industrialists, causing loss of Rs. 8 billion to the national exchequer.
3. 50% cut of sales tax for steel melters causing revenue loss of nearly Rs. 4 billion.

According to the findings of a study conducted by FBR “aggregate tax expenditure being the cost of exemptions, concessions and erosion of the tax base in the federal tax system during the last five years (2008-13) was not less than Rs. 750 billion”.

Approximately 2,000 tariff lines (representing 50 per cent of the SROs) are liable for import duties of less than 5.1 per cent, with almost 900 of them zero-rated! Government faces a massive revenue shortfall as two third imports are duty free.

Tax Havens

In their local currency, the total funds held by individuals and entities from Pakistan in Swiss banks stood at over Rs. 1.5 trillion as on December 31, 2012. The report confirming that Pakistanis possess larger funds than Indians in Switzerland alone and were moving the same elsewhere. If we add Dubai and other such centres where the rich and mighty have been shifting billions, the figure would be horrendously large—many times what is lying in Switzerland. It is not a matter of a few billions—the amount is at least ten times the collection of FBR. The issue of alleged stashing of black money in Swiss banks has been a matter of intense debate in Pakistan, as there are reports of some top former government leaders having parked their money in banks in the European country due to their hugely popular ‘safe-haven’ status. However, a higher amount than Indian entities assumes significance because Pakistan is a much smaller country in terms of population and area. Still, the quantum of money held by Swiss banks for their Pakistani clients was about 1.5 per cent higher than the equivalent figure for Indians at 1,421 million Swiss francs (about Rs 910 billion) at the end of 2012.

Recommendations

This policy brief has been developed by Oxfam Novib in collaboration with Indus Consortium & Centre for Inclusive Growth with the aim to push for structural tax reforms to deepen fiscal space, narrow down growing inequalities and reducing critical gap in human development.
The number of Pakistanis deprived of basic facilities like health and education is not less than 30 million. It is disclosed in the latest report of the World Bank, Addressing inequality in South Asia, that of 1,000 children born in Pakistan’s poorest population quintile, 94 will die within 12 months and 120 within five years. The report further claims that tax avoidance and evasion are pervasive in Pakistan while a major share of the tax revenue is spent on regressive subsidies. An unusually large fraction of the typically low government revenue is often devoted to reducing the final price of food, fertilizer, gas, and electricity which benefits the rich more than the poor. The Federal Government in 2013-14 collected Rs. 2254.5 billion, as against official claim of Rs. 2266 billion, and transferred Rs. 1264 billion to the provinces that are now responsible to provide health and education after the 18th Constitutional Amendment passed in April 2010. The allocations of provinces for these sectors are insufficient as they lack commitment, if not, money, to meet the basic needs of the people. Moreover, there exist large income and wealth inequalities in Pakistan and these have social and economic costs, causing violence and political instability. Fairer politics that provides more equal opportunity can advance society by bringing peace, social cohesion and use of collective wisdom.

Better tax policy is essential to increase government revenues and to improve the lives of the poor. When taxes are fair and government spending prioritizes essential public services, both poverty and inequality can be reduced. This is well described by Dreze & Sen: “the impact of economic growth on the lives of people is partly a matter of income distribution, but it also depends greatly on the use that is made of the public revenue generated by economic expansion”.

Progressive and fair taxation on all kinds of income and wealth are an effective way of redistribution. Delivering essential public services, such as universal access to education, health, drinking water and sanitation for the poor, will reduce disparities in society.

Unfortunately, the tax system in Pakistan is unfair. It inflicts fiscal injustices by providing privileges to a select group and places a disproportionate burden on the majority of people. This system is not only creating a large debt burden for the government but also increasing the fiscal deficit and fueling poverty.

It is a skewed system in which the poor man subsidizes the rich man. The problem starts at the top. The average worth of Pakistani members of Parliament is Rs. 9000,000, with its richest member topping $37 million, according to a study (December 2014) by the Pakistan Institute of Legislative Development and Transparency in Islamabad. A report released by the Center for Investigative Reporting in Pakistan revealed that in 2011, about 70% of legislators did not file tax returns, but no action was taken against them under the law. Resultantly, in 2013, many of them again entered the national and provincial parliaments. Although many of them enjoy a very high standard of living, none of 1,072 legislators - members of Senate, national and provincial assemblies - qualified among top 100 taxpayers to whom Federal Government, on the basis of tax declarations for tax year 2013. It is shocking to know that all the legislators cumulatively paid Rs. 251 million that is just 0.03% of total direct tax collection. They and other rich segments of society get exemption through the delegated powers given to the Executive to issue Statutory Regulatory Orders (SROs) without bringing the same for discussion in the Parliament and public domain. This is unconstitutional and against the norms of democratic disposition. There is urgent need to end the issuance of SROs, exemption or concession if necessary must be given by the Parliament.

Pakistan needs a paradigm shift in tax policy and revamping of entire tax administration - establishment of a National Tax Agency, capable of generating sufficient resources for the federal and provincial governments must be the top priority. Through consensus and democratic process, all the parliaments can enact laws for establishing autonomous National Tax Agency, comprising specialists, rather than bureaucrats that would facilitate people to deal with a single body rather than multiple agencies at national, provincial and local levels. The mode and working of National Tax Agency can be discussed and finalised under Council of Common Interest [Article 153] and its control can be placed under National Economic Council [Article 156].

Taxation, a potent instrument to shape and influence the socio-economic policies of a country, has not received due attention in Pakistan. A rational tax policy discourages, even penalises those who possess assets that are economically unproductive. Heavy taxation discourages accumulation of such idle assets. In social democracy, the most important objective of taxation is to provide economic justice, which relates to distribution of tax burden and benefits of public expenditure while maintaining vertical and horizontal equity. Taxation of the rich for the benefit of the poor is at the core of social democracy. It encompasses, besides redistribution of wealth, such questions as treatment of weaker sections of society e.g. women and children, minorities, the disabled and unemployed. All these elements are missing in our polity and tax policy.

Unfortunately in Pakistan, successive rulers, both military and civilian, used taxes as a tool to extort from the masses as much as possible for their own comforts and luxuries. By resorting to repressive tax laws, they make the rich, richer and the poor, poorer. Our financial managers are caught up in a dilemma. On the one hand there is a mounting pressure to reduce fiscal deficit through improved collections and on the other, they are not ready to abolish innumerable tax exemptions and concessions available to the rich and mighty. They have no will to plug revenue leakages. Therefore, we urgently call for the following.

- The federal government must increase allocation and increase spending on education, primary health care, water and sanitation services to ensure universal access.
- The federal government must introduce immediate structural reforms in tax policy, based on the principles of equity, to expand the domestic revenue base to finance the essential services mentioned above.

Required reforms include:
- Eliminating unnecessary concessions to the affluent class and discretionary laws to issue Statutory Regulatory Orders (SROs)
- Shifting to progressive direct taxation of income, wealth, and property transactions
- Gradually reducing indirect tax, especially sales tax which puts an undue burden on the poor
- Fairly taxing all economic sectors, also sectors like agriculture, wholesalers, and real estate that are currently not contributing towards the tax revenue in proportion to their share in economy.

Pakistan has a poor performance on human development indicators. In this situation, responsive democratic government must protect basic rights of people on priority basis. ‘Diffusion of knowledge’ and skills is the powerful force against inequality and positive force for upward social mobility - so is the access to quality health care services including safe drinking water and sanitation. Effective social protection mechanisms have also worked well to reduce disparities. All these require additional

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1 Full text is available at https://openknowledge.worldbank.org/handle/10986/20395
2 The figure in Budget 2013-14 was estimated at Rs. 1590 billion vis-à-vis tax target of Rs. 2475 billion
3 An uncertain glory- India and its contradictions by Amartya Sen and Jean Dreze (2013)

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Human development must be enhanced

There is some previous research on the evaluation of tax progressivity in Pakistan. For example, see Ilyas (2004), Alauddin et al. (1981), Ahmed et al. (1989), Aftab (1978), Leeteun (1978), Malik et al. (1985), and Vakil et al. (2000). However, there is no comprehensive study offering decomposition analysis of personal income tax system. In the developing countries like Pakistan, this area of research has in the past received less importance, given that income tax constitutes relatively smaller portion of the overall revenue collections.
The total number of Pakistanis deprived of basic facilities like health and education is not less than 30 million. It is disclosed in the latest report of the World Bank, Addressing inequality in South Asia, that of 1,000 children born in Pakistan’s poorest population quintile, 94 will die within 12 months and 120 within five years. The report further claims that tax avoidance and evasion are pervasive in Pakistan while a major share of the tax revenue is spent on regressive subsidies. An unusually large fraction of the typically low government revenue is often devoted to reducing the final price of food, fertilizer, gas, and electricity which benefits the rich more than the poor. The Federal Government in 2013-14 collected Rs. 2254.5 billion, as against official claim of Rs. 2266 billion, and transferred Rs. 1264 billion to the provinces that are now responsible to provide health and education after the 18th Constitutional Amendment passed in April 2010. The allocations of provinces for these sectors are insufficient as they lack commitment, if not, money, to meet the basic needs of the people. Moreover, there exist large income and wealth inequalities in Pakistan and these have social and economic costs, causing violence and political instability. Fairer policies that provide more equal opportunity can advance society by bringing peace, social cohesion and use of collective wisdom.

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resources, targeting poor areas and people and used more effectively. In the light of above situation of poor quality government to provincial subjects, the education, health, labour, law and order and simplest terms, this means that provinces will be poorly resourced.

Poverty: 5.5 million children are out of school, net primary enrolment is only 57% and adult literacy about 58%. These national averages even mask huge gender and geographical disparities.

1. Access to basic public health services is becoming a dream in Pakistan as public sector pulls out with less than 1% of GDP expenditure on health. Pakistan has highest child mortality in South Asia region with 89/1000 live births. Same is the case with maternal mortality ratio which is 276/100,000 live births.

2. Hunger and malnourishment is widespread in Pakistan and exacerbating due to disasters and increased political conflict. About 35 million people are malnourished and 46% of children under 5 years of age are stunted, while 62% children in bottom 20% families are stunted.

3. More than half of Pakistani population doesn’t have access to toilets. A shameful condition and about 11% don’t have access to improved drinking water sources.

Public expenditure on health in Pakistan has always been under one per cent of GDP. This is too low in the face of threats from deadly infectious diseases, unsafe food, malnutrition and poor access to basic health. There is a bias towards tertiary care. Along with low priority, the primary and preventive care now has the additional problem of providing security for health workers, especially the polio workers. The budgetary allocations continue to be low. In the entire Federal and Provincial budgetary outlays for 2014-15, health receives only 3.1 per cent. Balochistan makes the highest allocation, followed by KP and Sindh. The lowest allocation has been made by the Punjab, i.e. 5.4 per cent, which is slightly less than the revised allocation of the previous year.

The internationally recognised right to education is acknowledged in the 18th Amendment to the Constitution by inserting Article 25A to make elementary education a fundamental right. The said Article states: “Right to education.- The State shall provide free and compulsory education to all children of the age of five to sixteen years in such manner as may be determined by law.” Education is considered as an important means to realise other social and economic rights. Equitable and sustainable development is not possible without an educated population. Budgetary allocations, however, do not raise hopes of an early realisation of the goal of universal primary education. The quality and the content of education also continue to be lower down in the scale of priorities.

As a percentage of GDP, the total expenditure on education is increasing but at a snail’s pace. The budget for 2014-15 promises to increase, however, allocations are still far less than the level achieved in most developing countries. The expenditure is low even as a proportion of the total budgetary expenditure. It was budgeted at 9.28 per cent in 2014-15, which was lower than the 10 per cent achieved in 2013-14 and 9.75 per cent in 2012-13. While the Federal Government has reduced its allocations after devolution of education to provinces, the share of education in the respective budgets of the provinces for 2014-15 is less than the revised expenditure in 2013-14, the largest reduction of around 10 percentage points being in the case of the largest province. The highest proportion of the budget is allocated to education in KP, followed by Balochistan, Punjab and Sindh.

The total spending on social sectors by the federal and provincial governments is less that 2% of GDP which is one of the lowest in the world. This requires increasing tax revenues.

Pakistan can easily collect Rs. 8 trillion at federal level alone to eliminate fiscal deficit. If 10 million individuals having annual taxable income of Rs 1.5 million (a very conservative estimate) file their returns, total income tax collection from them at the prevalent tax rates would come to Rs. 3750 billion. If income tax collected from corporate bodies, other non-individual taxpayers and individuals having income between Rs. 400,000 to Rs. 1,000,000 is added, the gross figure would not be less than Rs. 5000 billion. FBR collected only Rs. 716 billion as income tax in the fiscal year 2012-13.

In 1991, Pakistan’s fiscal deficit was just Rs. 80 billion. It increased to 8 percent of GDP against the budgeted target of 4.7 percent in 2012-13. It was mainly due to 19 percent slippages in FBR budgeted tax revenue. The country has a potential to generate tax revenue of Rs. 12 trillion at federal and provincial levels, this will be 4-5 times higher than current collections by taking effective measures and can domestically finance pro-poor social protection programmes, universal primary education and health care- which in turn have high value for low income groups.

Collection falls short of revenue targets

FBR faces major challenges including political and institutional, to meet revenue targets every year. In 2012-13, shortfall recorded of Rs. 441 billion was the worst ever in history. FBR has failed to tap the actual tax potential that is not less than Rs. 8 trillion that was lost due to exemptions, concessions and institutional inefficiency. At
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To raise government spending on essential services, Pakistan must increase total tax revenues. Pakistan’s tax-to-GDP ratio remained between 6.0 to 10.0per cent of GDP during past 13 years, generally lowest in the world. As way of comparison, India’s rate, whilst still low, is almost double, whilst Brazil whose government has presided over a hugely successful redistribution programme that has reduced inequality has a tax-to-GDP ratio of 34%.

A more important factor is to look at tax potential in the economy and sufficiency of collection. Sufficiency, along with progressivity are principal factors of a fair tax system. Collection of less revenue than potential leads to reduced social sector allocations and external borrowing to fill the fiscal deficit which compromises political and economic decision making freedom.

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[The blue box on revenue capacity also fits in this section]

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<key_facts_on_human_development>

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4. More than half of Pakistani population doesn’t have access to toilets. A shameful condition and about 11% don’t have access to improved drinking water sources.

In 2013-14, the provincial component of the PSDP was budgeted at an ambitious level of Rs. 615 billion. The revised estimate was far lower at Rs 390 billion. The ambition in the budget for 2014-15 continues, as the allocation stands at Rs 650 billion. The Federal Government requires the provinces to show a surplus of Rs 289 billion. In simplest terms, this means that provinces will be spending that much less on development. With education, health, labour, law and order and justice system being provincial subjects, the delivery of social and economic rights will be poorly resourced.

In comparison, India’s rate, whilst still low, is almost double, whilst Brazil whose government has presided over a hugely successful redistribution programme that has reduced inequality has a tax-to-GDP ratio of 34%.

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indirect taxes for the year of 2013-14 in which 
1,622 billion of indirect taxes, 65% [Rs. 1,054 billion] are generated through sales tax which includes all items used by the poor hence disproportionately affects the income of poor people.
Even a cursory look at FBR’s Year Book 2013-
and s Year Book 2012-13, reveal that main reliance (75%) is on indirect taxes, burden of
which is borne by the poor, the weaker and the
less privileged sections of the society.
In Pakistan, there has been a shift from equitable taxes to highly inequitable ones. The dependence on indirect taxes - even in income tax law under the garb of presumptive income has transferred the burden of taxes from the rich to
the poor. The common people are paying an exorbitant sales tax of 17% (in fact 35%-40% on
finished imported goods after duties, mandatory value addition under sales tax law and income tax at source) on essential commodities while the
rich are paying no wealth tax/income tax on their
colossal assets/incomes. Following table depicts
Proportion of indirect taxes in total revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Income tax as percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>2.1%</td>
</tr>
<tr>
<td>2011-12</td>
<td>2.2%</td>
</tr>
<tr>
<td>2010-11</td>
<td>2.4%</td>
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<tr>
<td>2009-10</td>
<td>2.5%</td>
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<td>2008-09</td>
<td>2.6%</td>
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</tr>
<tr>
<td>2005-06</td>
<td>3.3%</td>
</tr>
<tr>
<td>2004-05</td>
<td>3.5%</td>
</tr>
</tbody>
</table>


disproportionately taxes majority and benefits few. The narrative that Pakistanis do not pay
taxes is a farce. The ground reality is that the
common citizens are over-taxed; whereas the affluent class enjoys tax breaks. It is an
undeniable fact that about 60 million active mobile users with effect from July 1, 2013 are
paying exorbitant tax of over 34.5% federal excise or sales tax of 19.5% and adjustable income tax of
15%. Majority of them have income below the
taxable limit. There is no way they can get refund of the adjustable 15% income tax withheld at
source, as cost of filing of return would be a lot
more and the procedure is too cumbersome.

Example-I: Lower tax rates for Rich property owners
Rich property owners - who, after getting state lands at throw-away prices, sell them at market rate and the gain is not taxed as “adventure in the nature of trade,” though so required under section 18 read with section 2(9) of the Income Tax Ordinance, 2001. Those who convert them into income-generating assets e.g. commercial buildings etc - have been paying lower rate of tax on rental income till tax year 2013 whereas salaried persons on the same income were made to pay higher tax! This concessional tax regime for the rich property owners has now been removed with effect from tax year 2014 bringing it at par with others.

Example-II: Poor widows vis-à-vis wealthy investors - interest income taxation
A rich person earning Rs. 6 million per annum as interest from bank pays Rs. 600,000 as tax under presumptive regime, whereas tax liability on this income of a businessperson for tax year 2013 comes to Rs. 1,322,500. The person has been saving an average tax of over Rs. 700,000 per annum since 1991 when 10% flat taxation
provincial level, there is no will to collect agricultural income tax from the rich absentee landlords. 

Better to give following table to back up the above claim:

**High indirect taxes worsen inequality**

The single most disturbing factor for increased income and wealth inequalities remains the regressive tax system in Pakistan. Regressive tax system in Pakistan is in the form of indirect taxes that take larger portion of meager income of a poor man and a very small slice of the substantial income of a rich citizen. Incidence of tax on the poor during the last 20 years has increased substantively (35%) while the rich are paying less on their colossal income and increased substantively (35%) while the rich are paying no wealth tax/income tax on their colossal assets/incomes. Following table depicts.

<table>
<thead>
<tr>
<th>Year</th>
<th>Target (Revised)</th>
<th>Collection</th>
<th>Growth (%)</th>
<th>Target Achieved (%)</th>
<th>Tax-to-GDP ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>1,000</td>
<td>1,008</td>
<td>-</td>
<td>100.8</td>
<td>9.5</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,179</td>
<td>1,161</td>
<td>15.2</td>
<td>98.5</td>
<td>8.8</td>
</tr>
<tr>
<td>2009-10</td>
<td>1,380</td>
<td>1,327</td>
<td>14.3</td>
<td>96.2</td>
<td>8.9</td>
</tr>
<tr>
<td>2010-11</td>
<td>1,588</td>
<td>1,558</td>
<td>17.4</td>
<td>98.1</td>
<td>8.5</td>
</tr>
<tr>
<td>2011-12</td>
<td>1,952</td>
<td>1,883</td>
<td>20.8</td>
<td>96.4</td>
<td>9.4</td>
</tr>
<tr>
<td>2012-13</td>
<td>2,050</td>
<td>1,946</td>
<td>03.3</td>
<td>94.9</td>
<td>8.5</td>
</tr>
<tr>
<td>2013-14</td>
<td>2,275</td>
<td>2,254.5</td>
<td>15.8</td>
<td>99.0</td>
<td>8.7</td>
</tr>
</tbody>
</table>


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on left further breaks down the composition of indirect taxes for the year of 2013-14 in which 1,622 billion of indirect taxes, 65% [Rs. 1,054 billion] are generated through sales tax which includes all items used by the poor hence disproportionately affects the income of poor people.

Even a cursory look at FBR’s Year Book 2013-14 and s Year Book 2012-13, reveals that main reliance (75%) is on indirect taxes, burden of which is borne by the poor, the weaker and the less privileged sections of the society.

In Pakistan, there has been a shift from equitable taxes to highly inequitable ones. The dependence on indirect taxes - even in income tax law under the garb of presumptive income has transferred the burden of taxes from the rich to the poor. The common people are paying an exorbitant sales tax of 17% (in fact 35%-40% on finished imported goods after duties, mandatory value addition under sales tax law and income tax at source) on essential commodities while the rich are paying no wealth tax/income tax on their colossal assets/incomes. Following table depicts.

<table>
<thead>
<tr>
<th>Year</th>
<th>Income tax as percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>2.1%</td>
</tr>
<tr>
<td>2011-12</td>
<td>2.2%</td>
</tr>
<tr>
<td>2010-11</td>
<td>2.4%</td>
</tr>
<tr>
<td>2009-10</td>
<td>2.5%</td>
</tr>
<tr>
<td>2008-09</td>
<td>2.6%</td>
</tr>
<tr>
<td>2007-08</td>
<td>2.9%</td>
</tr>
<tr>
<td>2006-07</td>
<td>3.2%</td>
</tr>
<tr>
<td>2005-06</td>
<td>3.3%</td>
</tr>
<tr>
<td>2004-05</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

**Subsidizing rich and taxing poor**

The current regressive taxation system in Pakistan can be categorized pro-rich as it disproportionately taxes majority and benefits few. The narrative that Pakistanis do not pay tax is a farce. The ground reality is that the common citizens are over-taxed; whereas the affluent class enjoys tax breaks. It is an undeniable fact that about 60 million active mobile users with effect from July 1, 2013 are paying exorbitant tax of over 34.5%federal excise or sales tax of 19.5% and adjusted income tax of 15%. Majority of them have income below the taxable limit. There is no way they can get refund of the adjustable 15% income tax withheld at source, as cost of filing of return would be a lot more and the procedure is too cumbersome.

Example-I: Lower tax rates for Rich property owners

Rich property owners - who, after getting state lands at throw-away prices, sell them at market rate and the gain is not taxed as “adventure in the nature of trade,” though so required under section 18 read with section 2(9) of the Income Tax Ordinance, 2001. Those who convert them into income-generating assets e.g. commercial buildings etc - have been paying lower rate of tax on rental income till tax year 2013 whereas salaried persons on the same income were made to pay higher tax! This concessional tax regime for the rich property owners has now been removed with effect from tax year 2014 bringing it at par with others.

Example-II: Poor widows vis-à-vis wealthy investors - interest income taxation

A rich person earning Rs. 6 million per annum as interest from bank pays Rs. 600,000 as tax under presumptive regime, whereas tax liability on this income of a businessperson for tax year 2013 comes to Rs. 1,322,500. The person has been saving an average tax of over Rs. 700,000 per annum since 1991 when 10% flat taxation...
was introduced benefitting the rich. Total tax saving by him/her in 22 years is more than Rs. 122 million. In contrast, a widow, who is earning a paltry income of Rs. 390,000 per annum from the same source, investing her deceased husband's gratuity in a national saving scheme or a bank account to make both ends meet, has had to pay tax of Rs. 39,000 although her income maybe below taxable limits or marginally taxable. In 22 years, she would have paid Rs. 858,000. This kind of tax system creates economic disparities by benefiting the rich.

What is driving fiscal injustices?

The nexus of wealth concentration; capture of resources and government power including parliament are the major challenges. Tax laws made by powerful elites allow loopholes, making concessions legal. This vicious cycle - in which power creating loopholes in tax system in order to draw wealth through illegal means - in turn uses same wealth to strengthen power - is a major cause of rising inequalities.

Pro-rich tax exemptions are unfair and undermine revenues

The tax codes of Pakistan are operated and controlled through executive orders called statutory regulatory orders (SROs). In many cases, these SROs give exemptions and concessions to the rich, distorting the entire tax base and aligned with shifting the burden of tax on the poor.

Federal Government-in real terms FBR- is empowered to exempt any income or specific persons from income tax, prescribe special reduced rates of tax for certain persons or allow a reduction in tax liability by making amendments in the Second Schedule to the Income Tax Ordinance, 2001. The FBR under the existing income law since 2002 has inserted a number of exemption clauses in the Second Schedule to the Ordinance. The sales tax and federal excise laws are also infected with numerous exemptions and concessions. Some examples of tax concessions are:

1. withdrawal of the biggest new revenue spinner - 1% withholding tax on manufacturing - resulting in a revenue loss of Rs. 18 billion.
2. drastic cut of federal excise duty on sugar to 0.5% aimed at benefiting the influential sugar industrialists, causing loss of Rs. 8 billion to the national exchequer.
3. 50% cut of sales tax for steel melters causing revenue loss of nearly Rs. 4 billion.

According to the findings of a study conducted by FBR “aggregate tax expenditure being the cost of exemptions, concessions and erosion of the tax base in the federal tax system during the last five years (2008-13) was not less than Rs. 750 billion”

Approximately 2,000 tariff lines (representing 50 per cent of the SROs) are liable for import duties of less than 5.1 per cent, with almost 900 of them zero-rated! Government faces a massive revenue shortfall as two third imports are duty free.

Tax Havens

In their local currency, the total funds held by individuals and entities from Pakistan in Swiss banks stood at over Rs. 1.5 trillion as on December 31, 2012. The report confirming that Pakistanis possess larger funds than Indians in Switzerland alone and were moving the same elsewhere. If we add Dubai and other such centres where the rich and mighty have been shifting billions, the figure would be horrendously large - many times what is lying in Switzerland. It is not a matter of a few billions - the amount is at least ten times the collection of FBR. The issue of alleged stashing of black money in Swiss banks has been a matter of intense debate in Pakistan, as there are reports of some top former government leaders having parked their money in banks in the European country due to their hugely popular ‘safe-haven’ status. However, a higher amount than Indian entities assumes significance because Pakistan is a much smaller country in terms of population and area. Still, the quantum of money held by Swiss banks for their Pakistani clients was about 1.5 per cent higher than the equivalent figure for Indians at 1,421 million Swiss francs (about Rs 910 billion) at the end of 2012.

Recommendations

This policy brief has been developed by Oxfam Novib in collaboration with Indus Consortium & Centre for Inclusive Growth with the aim to push for structural tax reforms to deepen fiscal space, narrow down growing inequalities and reducing critical gap in human development.