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M. ALI KEMAL June 04, 2014

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M ALI KEMAL

Mix and match budget was presented with a view that economy will move in the right direction with higher growth, lesser budget deficit, better investment opportunities, higher exports and better tax collection.

Budget is none other than an interesting exercise to make a plan for next year which includes all the expenditures and income of the government through various kinds of taxation. May days are busy days for ministry of finance since they were counting revenues from different sources of taxes to cover the expenditures government will do in the next fiscal year. After listening to a scary story from Dr Ashfaq Hasan Khan at the PIDE pre-budget seminar a few days ago on how we set revenue targets, I would refrain myself to say that the government has any intentions to propose tax reforms in the budget.

It is not a bad effort to present a budget of this kind when we are still facing energy issues, terrorism, lack of investment and high-budget deficit. Above all, everyone is looking for a relief package with subsidy on necessities, increase in salaries/pensions, lower inflation, employment opportunities etc.

While looking at the relief efforts, the budget witnesses increase in salaries of employees, ad-hoc relief allowance and pensions by ten percent. In addition, some other allowances are raised for employees in grade 1-16. Moreover, BISP allocation is increased to Rs. 118 billion and every household will get Rs 1,500 per month. Increase in minimum wages by 20 percent would be beneficial for the labour sector if it is implemented properly.

Sales tax on several commodities used in agriculture sector has either been reduced or abolished to bring down the cost of production as well as to provide relief to the farmers. Moreover, several initiatives have been taken to promote tunnel/greenhouse farming. Although tunnel farming needs special skills or training which Pakistan lacks, it may benefit many if mass training sessions are conducted to facilitate it.

Other than above facilitation, establishing a National Food Security Council is a good initiative to increase coordination across the provinces, which will help market reforms, value addition through productivity improvement and, above all, ensure stability in prices and guarantee stable incomes for farmers

Sales tax on retailers is a new initiative to increase tax revenues by linking tax rate with the amount of electricity bill they receive. A quick question would be whether it is going to increase pilferage of electricity to cut down their bills. Therefore, electricity theft needs to be controlled to implement such policy or we will face deeper problems.

Budget on health and higher education has been increased, but since the increase is not substantial, we cannot expect any major changes in both the social sectors. Both the sectors need substantial increase in their funds with serious structural reforms, which are absent in the budget speech.

The finance minister has announced several incentives for exporters, including reduction in the rate of exports, financing and different duty drawback rates to big exporters. Moreover, an entire section of the speech was dedicated to the exporters. Several sales tax initiatives were announced to lessen the problems of exporters. This would definitely facilitate the exporters but how they would respond is a serious question, since we are only looking at the supply side.

On the other hand, nothing was announced to facilitate domestic producer or domestic retailer except catching them with different ways to pay sales tax. No market strategy was announced by the FM to promote entrepreneurship in the economy although the PM scheme is there to provide loans at lower interest rates. The PM scheme with lesser absorption space in the economy/market may not solely benefit the entrepreneurs.

Although Dr Pasha said a few days ago at the PIDE pre-budget seminar that withholding tax which was started in 1997 is becoming a monster and we need to either get rid of it or need to reform it. Several adjustable and advanced taxes were announced in the budget. These taxes are then readjusted in the income tax returns. Apparently, it is a good strategy to collect revenues from the non-taxpayers, but we still need to look at the practical difficulties of it.

I will call it a budget of exporters and test of FBR to collect taxes by doing different reforms.

Abolishing SROs is a bold initiative but not all the SROs are abolished. There are few SROs which the committee has advised them to abolish. It may increase revenues to the government if no new SROs are issued to compensate the beneficiaries of old SROs. It may have been done in a different way as Dr Nadeem ul Haque says that powers to issue an SRO should be abolished and the parliament should decide if there is an urgency to import anything duty-free or at special tariff rates.

The budget was in favour of exporters. The government tried to give relief to the people, but amount of it is not substantial. Since different kinds of taxes are introduced in the budget to collect taxes from non-taxpayers and reduce several tax rates, which directly affects middle class persons, the government needs certain reforms and lots of efforts to meet the target of Rs 2,800 billion tax revenues. Moreover, decline in several tax rates, efforts to collect taxes from non-taxpayers and reduction in the overall subsidies may lead to single-digit inflation. I will not be surprised if it comes to 7-8 percent next year if some drastic measures are taken by the ministry of finance and State Bank of Pakistan.

(The writer is a research economist at Pakistan Institute of Development Economics)