

PTI's mini-budget is the right decision at the wrong time | The Express Tribune

Muhammad Saood Abdullah Khan January 05, 2022

pakistan s finance minister shaukat tarin pictured on june 11 2021 photo afp

Pakistan's Finance Minister Shaukat Tarin pictured on June 11, 2021. PHOTO: AFP

What crisis forced such measures in the middle of the fiscal year when inflation was already skyrocketing?

The Pakistan Tehreek-e-Insaf (PTI) government proposed to withdraw sales tax exemptions worth [Rs343 billion](#) in a mini-budget presented on December 28, 2021. This proposal came as result of the International Monetary Fund's (IMF) conditions for Pakistan to qualify for the [\\$1 billion tranche](#) under the Extended Fund Facility. Finance Minister Shaukat Tarin in his budget speech proposed a [17% General Sales Tax](#) (GST) on 144 goods and services which were exempted under different schedules of the Sales Tax Act, 1990. However, the government is facing strong backlash from the [opposition](#) because many consider this to be an imposition of new taxes on goods and services.

The truth, however, lies somewhere in the middle. This appears to be the right decision simply taken at the wrong time by the government.

Budgets are supposed to be presented once every fiscal year in the month of June as this gives businesses clarity with regards to taxation and expenditure policies. Only during a crisis are mini-budgets to be presented. This begs the question: what crisis forced such measures in the middle of the fiscal year when [inflation](#) was already forcing businesses to reduce supply due to the rising prices? The withdrawal of sales tax exemptions was supposed to help the government's tax policy gain higher revenue, but it should not have been stipulated under the IMF conditions.

Federal Board of Revenue (FBR) chairman Dr Ashfaq Ahmed stated that the IMF demanded a withdrawal of exemptions worth [Rs700 billion](#), with Pakistan agreeing to only Rs343 billion. This gives the impression that the Ministry of Finance was forced to enact these measures as a result of [increasing pressure](#) from the IMF. The concerned authorities and the FBR could have set these exemptions at Rs200-250 billion for essential goods during the annual budget for fiscal year 2020-21. Neither are the objectives of these exemptions mentioned nor is any legal framework for the provisions presented.

While it can be argued that the government has taken the right decision to withdraw these exemptions, it has done so at the wrong time since the average consumer will be the one suffering the most. The producers will pass on the burden to the final consumer, irrespective of their income, while the producers continue to earn higher profits due to the sales of inelastic products.

During initial negotiations between the IMF and the PTI government, the imposition of additional income tax on the salaried class worth [Rs225 billion](#) was declined. Income tax exemptions are a

major concern since many individuals pay little to [no taxes](#) on their income. Many of these exemptions are exploited by the [elite](#), bureaucrats and politicians. Income tax exemptions are estimated to be at [Rs448.046 billion](#).

Certain entities which are registered as trusts also avoid paying income taxes. They are protected by questionable policies under the Statutory Regulatory Orders (SROs) without referring to any policy or measurable objectives. One such example is pensions. An individual receiving a pension at retirement does not pay any income tax even if their pension income lies within the taxation bracket.

Tax expenditures under SROs are often politically motivated and provide loopholes in tax policy formulation and allow tax avoidance. Under [article 77](#) and 165 of the Constitution of Pakistan and the PFM Act 2019, taxes are to be imposed by law, but tax policies are driven by SROs which have no legal justification and are implemented by the government to favour certain segments of society.

The government and FBR should rethink such policies which are both discriminatory and unsustainable. SRO-based exemptions should be withdrawn. Exemptions and concessions, as proposed under PTI's mini-budget, must be defined in terms of the objectives, viability and the legal framework within which they function.

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