

Government of Pakistan
Finance Division

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Response to “Self Praise by MoF”

An article titled “Self praise by MoF” has been published in the Business Recorder dated 10-10-2016 written by Ms. Anjum Ibrahim. The writer has criticized FBR tax collection, reliance on withholding tax, shifting of non-tax revenue under the heads gas infrastructure development cess and gas development surcharge to other taxes, rising debt both domestic and external as well as issuance of Sukuk bond.

At the very onset, it is suggested that the data which the writer has used in developing her criticism is not correct. The correct data is presented below:

Year	Total FBR collections (Rs. Billion)	Total tax as % of GDP	Direct tax as percentage of total collection	Indirect tax as percentage of total collections	Current expenditures (Rs. Billion)	Development Expenditure, (Rs. Billion)
2011-12	1882.7 1882.8	9.4	39.2 38.9	60.8 61.1	2631.9 2262	303.6 313
2012-13	1946.4	8.7	38.2 38.0	61.8 62.0	2907 2631	360 348
2013-14	2254.5	9	39	61.1 61.0	3198.5 2717	425 441
2014-15	2589.9	9.4	39.9 39.8	60.2	3480.7 2977	542 502
2015-16	3103.7 3112.7	10.1 10.5	43.4 38.3	56.5 61.7	3599.8 3032	661 602

The writer has raised some observations with respect to FBR collection, as “the increase in revenue generation during the Sharif Administration relative to the tenure of the PPP led coalition government” seems incorrect. Actually a substantial increase of Rs. 1,166 billion in revenue collection during last three years has been witnessed, whereas during the last three years of PPP government the increase in revenue was Rs. 619 billion.

The writer has also criticized the FBR tax collection as “Tax collections are gross rather than net as they include advance tax collection and refunds” which is baseless. In fact, FBR has not reported the gross figures. The officially reported figures are always net figures after adjusting for advances and refunds. As per Income Tax law the advance tax is one of the categories of income tax paid in each quarter by the corporate sector and adjusted at the end

of financial year and this practice is not new. Similarly, the generation of refunds is the part of our tax system and system duly caters for the refund claims of the taxpayers and the refund claims are being paid as per the past practice.

The writer has also raised observation regarding non-tax revenue “Shifting of non-tax revenue under the gas infrastructure development cess and gas infrastructure development to other taxes since 2014-15”. The claim of author is based on the lack of information about the reporting system of FBR field formations. The field formations report on the daily basis to the Directorate of Research and Statistics on a prescribed format. The format includes the heads; Direct taxes, Sales tax (import) and Sales Tax (Domestic), FED and Customs duty. Therefore, it is not possible to include a big amount of Rs. 190 billion relating to gas infrastructure development cess and gas infrastructure development surcharge in these heads. The writer also claimed that the share of withholding taxes is 75%, which is not correct. The data indicates that during last several years the share of withholding taxes has not crossed 65% in a single year. Moreover, withholding taxes only represent a mode of collection of Income Tax which remains direct tax irrespective of the mode of collection. Most of the withholding taxes collected by FBR are adjustable towards the actual tax liability of the taxpayers to be determined at the end of accounting period. Withholding taxes also serve the purpose of documenting various economic transactions that otherwise would go unrecorded and the documentation helps in determining the actual tax liability of the taxpayers.

With regard to writer’s criticism on the recent issuance of one billion dollar Sukuk by the government that is “more than the 79.125 million rupees budgeted for the year implying that the budgeted mark-up payable this year would be higher with its consequent impact on all other budgetary claims”.

The writer needs to understand that Pakistan successfully issued US\$1 billion Sukuk at a historic low rate of 5.5% which is better than recent sovereign issuance of bonds by both Bahrain and Sri Lanka, the credit ratings of which are higher than Pakistan. The issuance of Sukuk will equally reduce the domestic public debt by around Rs 104.5 billion and will, therefore, not result in any increase in the country’s overall public debt and it is naïve to assume that if Sukuk bond has been raised more than its budgetary target would raise the budgeted mark-up payable for the current year. It needs to be understood if a certain foreign exchange/borrowing need has been sufficed by additional Sukuk borrowing, the government may require to borrow less from other sources e.g. sovereign bonds/domestic source. Hence, it will not result in additional mark up payable for the year.

Furthermore, with regard to her criticism of increasing external debt, the public external debt rose from US\$48.1 billion in 2013 to US\$57.7 billion in 2016 instead of US\$ 60.899 billion in 2013 to US\$73 billion in 2016 as mentioned in the news item. The news item is probably referring to the total external debt & liabilities which contains liabilities which are not part of our public external debt, which has been clarified at several forums. Moreover, it is also clarified that domestic debt increased to Rs13,626.9 billion in 2016 instead of Rs.14,020.45 in 2016 as reported in the article.

The writer's claim on the borrowings of 400 billion dollars to retire circular debt on second last day of the year ending 2013 is totally baseless. The summary of sources for financing the settlement of circular debt in 2013 is publically available on MoF website.
