Institute for Policy Reforms
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IPR Issues Proposals for Budget 2016-17

Government must make non-filing of tax returns a crime and increase the penalty for tax evasion. This is stated in IPR's proposals for budget 2016-17 issued today. The report states that financial constraint restricts the government from providing public service and infrastructure to the people. This has reduced trust in government and has disaffected a large part of the population. The people want jobs, economic activity, and reliable power supply. Everyone knows the reasons for the low tax to GDP ratio. It is now time to take action.

Government has met fiscal challengessuccessfully. FBR will most likely achieve this year's tax collection target. Fiscal deficit also will likely stay within the target of 4.3%. However, government has yet to introduce structural reforms to stimulate economic activity and investment. It has not addressed the issues of political economy, governance improvement, and productivity enhancement. The external sector remains vulnerable with falling exports and high foreign debt.

The report recommends that though Pakistan's EFF arrangement with IMF will end soon, the economy must not lose the stability gained in recent years. At the same time, there should be no new taxes, except to reduce tax expenditure (exemptions) from direct and indirect taxes. Revenue increase must come from broad basing collection. Current expenditure may stay at the present inflation adjusted level. Growth inducing public investment must increase to enhance productivity. It is necessary to increase the development envelope also for CPEC projects. Government may reorient PSDP to increase allocation for productive sectors.

The report makes specific recommendations for increase in tax collection. They centre on broadening of tax base and on strengthening compliance. Tax rate is already high in Pakistan. The issue is to make people pay. It is important forgovernment to highlight major delinquent cases. Where necessary, immovable property transactions should require a tax ID. FBR may integrate its database with other organizations to identify non-filers. Equally, it is necessary to enforce 'Benami' accounts restriction on Banks. The report also recommends structural changes in the FBR. There is need to simplify procedures, rationalize systems, and remove distortions. Federal government must impress onprovincial governments to increase revenue from agriculture and urban property taxes.

To build effectiveness in current expenditure, government mustbegin to review recurrent expenses, which is about eighty percent of the budget. Current expenditurereceives funding with practically no review. It is critical that expenditure align with government's major objectives.

Zero-based budgets, especially for the over one hundred autonomous organizations and departments in the government, will help determine their contribution. This will enable government to decide their use and further existence. Government may also consider merger or devolution of some federal ministries. With markup rates low, government must rationalize debt-servicing expense by increasing share of long-term debt to lock in present low markup rates.Eventually, government must address the issue of unpaid circular debt. It is critical to check revenue leakage from DISCOs. Likewise, PSEs preempt considerable resources. Improvement in their performance is necessary.

For effective development spending, Planning Commission may prepare Annual Plans several months before the PSDP. As the road map for PSDP, there should be broad consultation on the Annual Plan with political leadership and other stakeholders. This will reduce top down project selection and create a better connection between strategy and budget. Rather than spread thin limited resources, Planning Commission must prioritize three or four sectors for funding so that projects do not have a throw forward of more than three years (other than for operational reasons). Reduction in the number of PSDP projects will help with timely completion of priority projects while staying within MoF’s envelope. To ensure long-term benefits from projects, new approvals must have MoF’s assurance that funds for maintenance will be available.

The report emphasizes that budget preparation must not be an exercise to balance receipt with expenses. It must support the country’s development strategy. The budget must meet larger objectives of the economy such as to build competitiveness and alleviate poverty.