

Revenue performance: The untold story

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After a stellar performance in revenue collection in the last fiscal year, the deceleration in growth of National Board of Revenue (NBR) tax revenue raises some interesting questions. Nine months into the fiscal year 2008-09, NBR management finds little to cheer about. Revenue growth continues to fall short of target, which was appropriately kept at modest levels on the back of record tax revenue growth of 27 per cent in the last fiscal year. Last year was different – some national events provided a temporary fillip to tax collection. A military-backed caretaker government was in charge. Two factors ensured greater tax compliance. First, Chittagong port was partly managed by a team of army personnel. The port was running super-efficiently in terms of ship turnaround time and speed of cargo clearance. Revenue collection at customs was also streamlined. The result? Import-based taxes were up 21% by January 2008, though import growth was uneventful at 16%. Second, a high degree of tax compliance occurred with respect to filing of income tax as the high-gear anti-corruption drive of ACC drove many hitherto non-filers into submitting income tax returns. Income tax revenue grew a record 42% by January 2008. That act would be hard to follow – this year, or in the near future, in the absence of hard reforms. A look at the statistics in Table 1 is revealing. Import based taxes are trailing last year's figures by a long

margin -10.6%

compared to 21%, although July-December import growth in dollar terms was 23%. Income tax revenues are up

only 18% compared to 42% last year. The problem of large numbers of non-filers this year was earlier flagged

by NBR.

Reports that global recession is weighing heavily on tax revenue performance appears not to be tenable. Anemic

growth of import-based taxes in the wake of robust import growth (23% increase July-Dec, despite commodity

price slump) tells a different story. The real problem lies in the deep cuts in tariffs in last year's budget on all

shades of inputs - intermediates, raw materials, capital machinery (Table 2).

Except for the top rate of 25%, all other non-zero tariffs on inputs were lowered. Using FY08 imports as base,

this shaved off 24% customs duty revenue. That is, imports this year would have to grow by 24% just to

compensate for the cuts. No wonder customs duty (CD) revenue is growing a paltry 3% as of January. Add to

this the loss in import value added tax (VAT) and supplementary duty (SD), which are imposed on duty

inclusive value, then you get the picture why customs revenue generally would not be buoyant this time. Why

blame the global recession?

With regard to income tax, the problem of non-filers has resurfaced. It seems, the tax authority, despite the best

intentions, is unable to plug several loopholes in its tax collection armour. Its latest move is to address the

problem of multiple Tax Identification Numbers (TINs) in circulation, which gives a bloated figure of income

tax filers. Whereas some two million TINs have reportedly been issued over the years, actual filers of income

tax this year was a meager 600,000 or thereabouts. The rest are not non-filers. It is now an open secret that fake

TINs have been easy to get for people applying for such things as car registration, credit cards, trade licenses, and so on.

Better late than never! We are glad that NBR has finally come to grips with this problem which we believe can and should be resolved. The technical resources to tackle this problem have been with NBR for some time. It is

heartening to see that they will now be put to good use. There is no question that fresh but genuine TINs should

be issued to hundreds of thousands of potential taxpayers in the country who are, for one reason or other, out of

the tax net. There is no disagreement on the need to expand the tax base which remains miniscule in relation to

the size of potential taxpayers in the country.

Revenue performance has been the Achilles' heel of fiscal sustainability despite the fact that year after year

NBR has been blessed with the best and brightest leadership from our current crop of civil servants. Demands

on public expenditure has been rising in geometric terms, but revenue as a proportion of economic activity has

remained mired in the quicksand of an anachronistic revenue authority. That is where we need change -change

we can and must!