SUMMARY of the Article "A heavy burden," by Ehsan Malik, Dawn, July 6th, 2024

The article critically examines Pakistan's federal budget and its implications for securing the 24th IMF program, arguing that it unfairly burdens salaried employees and those already taxed heavily while neglecting the powerful untouchables and avoiding significant government expenditure reductions. The need for the IMF program is acknowledged to maintain Pakistan's fragile solvency and avoid debt restructuring, but skepticism remains about whether this program will bring the necessary reforms to be the last one. Pakistan's history with 23 IMF programs is highlighted, with previous programs failing due to unrealistic, front-loaded targets that didn't account for the Federal Board of Revenue's (FBR) capacity or political will. The 2024-25 budget follows this same flawed approach, deepening the tax base rather than broadening it, and employing revenue-extractive measures that favor short-term fixes over sustainable change. The article stresses that Pakistan needs to boost exports and attract foreign direct investment (FDI) to manage its external account but criticizes the budget for making exporters' lives difficult and deterring foreign investors with high taxes and unpredictable fiscal policies. The imposition of high taxes on skilled talent may drive them to leave the country or shift to the informal sector, while the imposition of an 18 percent GST on packed dairy products will likely increase inflation. The budget also fails to address major recommendations for reducing the tax burden on the formal sector, such as phasing out supertax and restoring group taxation. Overall, the budget is deemed inequitable, unfair, and misaligned with the goals of balancing external and fiscal accounts or stimulating investment and employment, likely resulting in unmet tax targets and further economic instability. The article concludes that the 24th IMF program will not be the last and will only provide temporary solvency without addressing fundamental economic flaws.

Easy/Short SUMMARY:

The article criticizes Pakistan's new federal budget, saying it unfairly taxes salaried workers and those already paying a lot, while ignoring powerful groups and not cutting government spending. The budget is seen as necessary for an IMF program to keep Pakistan's economy stable, but it is unlikely to bring lasting reforms. Pakistan has had 23 IMF programs, all with unrealistic targets. The 2024-25 budget repeats these mistakes by focusing on short-term revenue collection instead of sustainable changes. High taxes on skilled workers and an 18 percent GST on packed dairy products may lead to inflation and drive people to the informal sector. The budget also makes life difficult for exporters and foreign investors. Major recommendations to reduce the tax burden on the formal sector were ignored. The article concludes that this budget will not fix Pakistan's deep economic problems and will likely lead to further economic instability.

SOLUTIONS of The Problem:

Broadening the Tax Base

Expand the tax base by including untaxed or under-taxed sectors and ensuring that all segments of society contribute fairly, rather than overburdening salaried employees and existing taxpayers.

Encouraging Exports and FDI

Implement policies that enhance export competitiveness and attract foreign direct investment, such as tax incentives, streamlined regulations, and protection from arbitrary fiscal policies.

Reducing the Informal Economy

Introduce measures to bring the informal economy into the tax net, including simplified tax procedures and incentives for informal businesses to formalize, thus widening the tax base.

Phasing Out Regressive Taxes

Gradually eliminate regressive taxes like supertax and double taxation of inter-corporate dividends to promote investment and reduce the burden on the formal sector.

Improving FBR Capacity

Invest in the restructuring and digitization of the Federal Board of Revenue (FBR) to enhance its capacity for efficient tax collection and reduce harassment of taxpayers.

Inflation Control Measures

Implement policies to control inflation, such as monitoring price controls and reducing GST on essential items like packed dairy products to prevent a rise in the cost of living.

Fiscal Policy Stability

Ensure predictable and stable fiscal policies to build investor confidence, avoiding abrupt changes in tax rates and regulations that deter investment.

Supporting the Telecom Sector

Reduce the burden on the telecom sector by reconsidering its role as unpaid tax collectors, thus lowering the cost of connectivity and supporting the growth of the digital economy.

Promoting Skilled Workforce Retention

Create policies to retain skilled workers in the country by offering tax reliefs and other incentives, preventing brain drain and strengthening the formal sector.

Comprehensive Economic Reforms

Pursue comprehensive economic reforms that address structural issues, reduce dependency on IMF programs, and create a sustainable economic environment conducive to growth and stability.

IMPORTANT Facts and Figures Given in the Article:

- Pakistan needs the 24th IMF program to maintain solvency and avoid debt restructuring.
- The federal budget heavily taxes salaried employees and those already paying significant taxes.
- Pakistan has had 23 IMF programs, with the 24th likely not being the last.
- The 2024-25 budget focuses on deepening the tax base instead of broadening it.
- High taxes on skilled workers and an 18 percent GST on packed dairy products may lead to inflation and push people to the informal sector.
- The budget fails to address major recommendations for reducing the tax burden on the formal sector.
- The budget is criticized as inequitable, unfair, and misaligned with economic goals.

MCQs from the Article:

1. *What is the primary criticism of the federal budget mentioned in the article?*

A. It excessively funds government expenditure.
B. It imposes light taxes on salaried employees.
C. It unfairly burdens salaried employees and those already taxed heavily.
D. It significantly reduces the government's debt.

2. *How many IMF programs has Pakistan had before the 24th program?*

A. 20
B. 21
C. 23
D. 25

3. *What is the main goal for Pakistan in securing the 24th IMF program?*

A. To decrease exports.
B. To increase government spending.
C. To maintain solvency and avoid debt restructuring.
D. To reduce the number of salaried employees.

4. *What tax measure in the 2024-25 budget is likely to lead to inflation?*

A. Imposition of 18 percent GST on packed dairy products
B. Reduction of taxes on the informal sector
C. Phasing out supertax
D. Tax incentives for exporters

5. *What sector is negatively impacted by high taxes and unpredictable fiscal policies according to the article?*

A. Informal sector
B. Foreign direct investment
C. Telecommunications
D. Public sector

VOCABULARY:

1. *Onerous* (adjective) (□□□□□): Involving a great deal of effort, trouble, or difficulty.
2. *Solvency* (noun) (□□□□□□ □□ □□□□□□□): The ability to meet long-term financial obligations.
3. *Debt restructuring* (noun) (□□□□□ □□□□□□ □□ □□□): The process of reorganizing the terms of existing debts to provide relief to the borrower.
4. *Extractive* (adjective) (□□□□□□□□): Relating to the extraction of resources or income, often implying unfair or exploitative practices.
5. *Oblivious* (adjective) (□□□ □□): Not aware of or concerned about what is happening around one.
6. *Harassment* (noun) (□□□□ □□□□□□): Aggressive pressure or intimidation.

7. *Fiscal policy* (noun) (□□□□□□ □□□□□□□): The use of government revenue collection and expenditure to influence the economy.
8. *Capital flight* (noun) (□□□□ □□ □□□□□□): The large-scale exit of financial assets and capital from a country due to economic or political instability.
9. *Equitable* (adjective) (□□□□□□□): Fair and impartial.
10. *Super tax* (noun) (□□□□ □□□□□): An additional tax imposed on income beyond a certain level.
11. *Double taxation* (noun) (□□□□□□□ □□□□□): The imposition of two or more taxes on the same income, asset, or financial transaction.
12. *Group taxation* (noun) (□□□□□□□ □□□□): Taxing a group of related companies as a single entity for tax purposes.
13. *Vagaries* (noun) (□□□□□□□□ □□ □□□): An unexpected and inexplicable change in a situation or someone's behavior.
14. *Inflation* (noun) (□□□□□□□): The rate at which the general level of prices for goods and services rises, leading to a decrease in purchasing power.
15. *Unlevel playing field* (phrase) (□□□□□ □□□□□ □□□): A situation where unfair advantages or disadvantages exist.
16. *Ponzi scheme* (noun) (□□□□ □□□□□): A fraudulent investment operation where returns to earlier investors are paid using the capital from newer investors.
17. *Solvency* (noun) (□□□□□□ □□ □□□□□□□): The ability to meet long-term financial obligations.
18. *Formal sector* (noun) (□□□□ □□□□□□□): The part of the economy that is regulated, taxed, and monitored by the government.
19. *Informal sector* (noun) (□□□□ □□□□ □□□): The part of the economy that is not regulated by the government and often involves unreported income.
20. *Tax net* (noun) (□□□ □□□□): The system through which the government collects taxes from individuals and businesses.

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A heavy burden
Ehsan Malik

WITH its onerous burden on salaried employees and those already taxed disproportionately while leaving out the mighty untouchables or substantially reducing government expenditure, the federal budget is hyped as an essential step to secure the 24th IMF programme. Granted, we need this programme to retain our fragile solvency and avoid debt restructuring. But is the 24th programme likely to be the final programme and achieve the much-required reforms? Is the sacrificial offering to the IMF worth the pain it will cause? I think not.

Pakistan has had 23 IMF programmes to date. For the 24th programme to be the last, it would need to be drastically different from the earlier ones. However, so far, there is nothing to suggest this. Previous programmes were front-loaded with targets that could not lead to sustainable change and were set oblivious of how they would be met.

A prime example is tax targets without consideration of FBR's capacity or the government's political will. Hence, they were met through easy options. Tax the weak, ie, the salaried, and extract more from those already in the tax net. The 2024-25 budget repeats this formula through revenue-extractive measures based on deepening rather than broadening the tax base. It is, therefore, an attempt to appease the IMF, which lacks trust in the government's capacity or willingness to undertake painful reforms. Such knee-jerk, short-term, tactical measures are not good for Pakistan, even if they are acceptable to the IMF.

The next IMF programme will not be the last.

Pakistan needs exports and foreign direct investment to help manage its external account. Instead of a comprehensive review of all the factors undermining Pakistan's export competitiveness, the budget makes the lives of exporters difficult by exposing them to the vagaries of FBR's notices and harassment that they were spared under the Final Tax Regime. FBR's restructuring and digitisation designed to stem this harassment are held out as hope, but realistically, that will take a few years, if ever, to materialise.

Existing foreign investors would be put off by the threat of disallowance of their advertising expenses. New local and foreign investors will not be forthcoming due to an unpredictable fiscal policy and tax rates that are higher than those of alternative jurisdictions. Additional taxes on the more experienced talent, which the formal sector employs, will likely lead to more people leaving the country or looking for non-taxed alternatives, ie, the informal sector. Capital flight from Pakistan will continue due to higher income tax and capital value tax.

The imposition of 18 per cent GST on packed dairy will not only create an unlevel playing field versus open and often adulterated milk, it will also lead to inflation. Steel, tea, and edible oil sectors will continue to suffer from the misuse of the concessions, now renewed for ex-Fata and Pata. The levy of advance tax on retailers will only apply to supplies by the formal sector, while smugglers and the informal sector will capitalise by eating into their share. It is also likely that this burden will be passed on to the consumer as retailers force manufacturers to cover the tax through high prices. The government put an additional burden on the telecom sector by forcing it to act as unpaid tax collectors, raising the cost of connectivity, vital for a digital economy.

None of the major recommendations to reduce the heavy burden of taxes on the formal sector and promote scale and competitiveness were considered in the budget. These included phasing out supertax, withdrawing double taxation of inter-corporate dividends, and restoring the letter and spirit of group taxation as enacted in the Finance Act 2007-08.

In short, the budget is inequitable, unfair, and unreasonable. It lacks vision and is not aligned with the need to balance the external and fiscal accounts or to kickstart investment and employment. Instead, it will thwart the growth of the private sector.

As a result, the government is unlikely to meet its tax targets. That would then trigger an even more extractive mini budget. Inflation is unlikely to recede at the expected rate, nor will the policy rate decline to levels previously hoped for. The Ponzi scheme of printing currency and directing bank lending to feed the government’s uncontrolled appetite will subsist. A valuable opportunity to set the tone for an IMF programme to achieve sustainable change appears to have been lost. The 24th programme is unlikely to be the last. At best, it will provide temporary solvency. At worst, it will fail to address deep and fundamental economic defects.

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Published in Dawn, July 6th, 2024