SUMMARY of the Article “Budget and politics,” by Dawn Editorial, June 14th, 2024

The article critiques the recent budget presented by Finance Minister Muhammad Aurangzeb, highlighting a disconnect between his stated ambitions and the actual measures proposed. Aurangzeb had expressed a commitment to raising Pakistan’s tax-to-GDP ratio to 13% within three years, emphasizing the need to expand the tax base rather than relying on charity. However, the budget reveals a reliance on traditional methods that target existing taxpayers, particularly the salaried class and documented businesses, rather than significantly broadening the tax base. While the budget does propose the removal of certain tax exemptions enjoyed by privileged sectors, this move appears to be driven by the necessity to meet IMF conditions for the Extended Fund Facility rather than genuine reform. The article points out that the budget fails to introduce significant direct taxes on retail trade, despite previous government rhetoric on the issue, and does not impose additional taxes on real estate developers and agents. These omissions suggest political considerations outweigh economic reform, as the ruling PML-N seeks to avoid alienating its traditional support base. The budget’s approach, the editorial argues, reflects a lack of innovation and courage, missing an opportunity to enact structural changes needed to truly broaden the tax base and improve the tax-to-GDP ratio.

Easy/Short SUMMARY:

The article criticizes Pakistan’s new budget for not matching the finance minister’s promises of expanding the tax base. Although he aimed to increase the tax-to-GDP ratio to 13% in three years, the budget mainly targets those who are already paying taxes, such as salaried workers and documented businesses. It also avoids taxing traders and real estate developers, likely for political reasons, to keep traditional supporters happy. The budget misses the chance to make real changes needed to improve the tax system, showing a preference for old methods over bold reforms.

SOLUTIONS of The Problem:

Expand Tax Base

Broaden the tax base by bringing more sectors and individuals into the tax net, particularly those involved in informal and cash-based economies.

Implement Direct Taxes on Retail Trade

Introduce direct taxes on retail traders, ensuring that this significant segment contributes fairly to the tax revenues.

Tax Real Estate Developers and Agents

Levy additional taxes on real estate developers and agents to ensure that the booming property sector also contributes to national revenue.

Strengthen Tax Collection Mechanisms

Enhance the efficiency and effectiveness of tax collection agencies through technology and improved administrative processes to reduce tax evasion.

Promote Voluntary Compliance

Encourage voluntary compliance through awareness campaigns and incentives for individuals and businesses to file taxes honestly.

Reduce Political Influence

Minimize political interference in tax policy-making to ensure that economic reforms are not compromised for short-term political gains.

Provide Taxpayer Support Services

Offer robust support services for taxpayers to help them understand and comply with tax regulations, reducing unintentional non-compliance.

Enforce Penalties for Non-Compliance

Implement strict penalties for tax evasion and non-compliance to deter individuals and businesses from avoiding their tax obligations.

Simplify Tax Filing Procedures

Simplify tax filing procedures to make it easier for individuals and businesses to comply with tax laws, reducing the administrative burden.

Regularly Review and Update Tax Policies

Conduct regular reviews and updates of tax policies to ensure they remain relevant and effective in addressing the evolving economic landscape.

IMPORTANT Facts and Figures Given in the Article:

- Finance Minister Muhammad Aurangzeb aims to increase Pakistan's tax-to-GDP ratio to 13% within three years.
- The budget proposes to revoke certain tax exemptions to raise annual tax collection to Rs12b.97tr to qualify for the IMF's Extended Fund Facility.
- The budget targets the salaried classes and documented businesses for additional revenue measures.
- The government has avoided levying direct taxes on retail trade and has shielded real estate developers and agents from additional tax burdens.

MCQs from the Article:

1. What tax-to-GDP ratio does Finance Minister Muhammad Aurangzeb aim to achieve in the next three years?

A. 10%

B. 11%

C. 13%

D. 15%

2. What is the expected annual tax collection proposed in the budget to meet IMF conditions?

A. Rs10b.97tr

B. Rs12b.97tr

C. Rs14b.97tr

D. Rs15b.97tr

3. Which segments are primarily targeted for additional revenue measures in the new budget?

A. Traders and real estate developers

B. Salaried classes and documented businesses

C. Agricultural sector and exporters

D. Informal economy and non-filers

4. What does the budget propose to levy on property transactions?

A. Sales tax

B. Income tax

C. Capital gains tax

D. Federal excise duty

5. Why did the government avoid levying direct taxes on retail trade?

A. To comply with IMF conditions

B. Due to economic constraints

C. For political reasons to avoid angering traditional support

D. Because of legal restrictions

VOCABULARY:

1. **Resolve** (noun) (□□□): Firm determination to do something.

2. **Tax-to-GDP ratio** (noun) (□□□□□ □□ □□ □□ □□ □□ □□□□): The ratio of a country’s tax revenue to its gross domestic product.

3. **Broaden** (verb) (□□□□□□□): Expand or widen.

4. **Exemptions** (noun) (□□□□□□□): Freedom from an obligation or rule imposed on others.

5. **Privileged** (adjective) (□□□□□ □□□□□□□): Having special rights, advantages, or immunities.

6. **Revocation** (noun) (□□□□□): The official cancellation of a decree, decision, or promise.

7. **Sine qua non** (noun) (□□□ □□□□□): An essential condition; a thing that is absolutely necessary.

8. **Extended Fund Facility** (noun) (□□□□□□□ □□□ □□□□□□□□□□): An IMF program providing financial assistance to countries with balance of payments problems.

9. **Rhetoric** (noun) (□□□□□): The art of effective or persuasive speaking or writing.

10. **Documented** (adjective) (□□□□□□□□□): Recorded in documents.

11. **Non-filers** (noun) (□□□□□□ □□□): Individuals or entities that do not submit tax returns.

12. **Political imperatives** (noun) (□□□□□□□ □□□□□): Actions driven by political necessity.

13. **Federal excise duty** (noun) (□□□□□ □□□□□): A type of tax imposed on specific goods or services.

14. **Expediency** (noun) (□□□□□): The quality of being convenient and practical despite possibly being improper or immoral.

15. **Imagination** (noun) (□□□□): The ability to form new ideas, images, or concepts not present to the senses.

16. **Structural changes** (noun) (□□□□□□□□ □□□□□): Significant alterations in the framework or system.

17. **Legitimacy** (noun) (□□□□): Conformity to the law or to rules.

18. **Milking** (verb) (□□□□□): Exploiting someone or something for profit or advantage.

19. **Voluntarily** (adverb) (□□□□□□□□□): Done by one's own free will.

20. **Evasion** (noun) (□□□□): The act of avoiding something undesirable or avoiding paying taxes.

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FINANCE MINISTER Muhammad Aurangzeb on Thursday expressed his 'resolve' to increase Pakistan's tax-to-GDP ratio to 13pc in the next three years. Addressing a post-budget media briefing, he said: "Our basic principle while framing this budget was to expand the tax base." Given this statement and his earlier declaration at the launch of the Economic Survey that "countries cannot be run on charity but taxes", it was expected that the new budget would have significant measures to broaden the tax base. The reality of the taxation measures announced by him in the budget, however, does not match his rhetoric.

Before we delve into the reasons for this gap, it should be acknowledged that the budget does propose the revocation of certain tax exemptions being enjoyed by certain privileged sectors of the economy. That, though, has been done to raise the annual tax collection to Rs12b.97tr, a sine qua non to qualify for the three-year Extended Fund Facility being sought from the IMF. One does not have to be a financial wizard to see that the budget still follows the same tried, tested, flopped and, therefore, oft-rejected trope of milking those already in the tax net even more. A large part of the additional revenue measures being proposed target the same two segments — the salaried classes and documented businesses — which already pay the bulk of personal and direct taxes. At best, the government can only hope that its proposal to levy higher taxes on non-filers trying to buy or sell property will force them to join the tax net voluntarily. At worst, it will force more people to engage in cash transactions and, thus, increase tax evasion.

The next budget, in fact, reflects the ruling PML-N's political concerns more than its economic reform agenda. For one, it has left its traditional support — traders — virtually untouched. Nothing except such political imperatives explain why the finance minister did not levy any direct taxes on retail trade even when the government has talked a lot about it of late. Similarly, while there is a proposal to levy federal excise duty on property, real estate developers and agents have been shielded from any additional tax burden. This, too, stems from political expediency: the PML-N cannot afford to anger the middle class other than those sections that have already turned against it. The budget, therefore, lacks both imagination and courage. It shows that the finance team did not envision any structural changes to broaden the tax-to-GDP ratio and, instead, chose to stick to old formulae. It also shows that the ruling party is scared of taking bold steps lest it loses whatever little public support and legitimacy it has. Consequently, the budget it has presented signifies nothing but a lost opportunity to fix the system.

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