

Speech of Mr. Abdullah Yousuf, former Chairman FBR in Concluding Session

Bismillah Hir Rehman Nir Raheem, Honorable Chief Minister of Sindh, distinguished guests, members on the podium, Ladies and Gentlemen Asalaam o alekum, as they say there is never a free lunch, so I am here because I have actually been asked to say a few words and it is really a pleasure.

This initiative by the Sindh Government of launching SRB is a huge initiative and an extremely good beginning I would say because taxation is something which is key to any economy's survival I would say and if we think we can leave it to one individual it is like a family and if you leave as far as income is concerned and you leave it to that one family member so that he is the only earning member obviously then there is a huge strain on that member and as opposed to that if you can distribute it and other members also come up and take responsibility and have some more income coming in that certainly is a great relief for the entire family. So in this way this particular initiative is no different to most of the countries of the world where the provinces or the states are supposed to also mobilize resources and take those required initiatives. Now here, constitutionally we heard all the history and this has been the role for the provinces for years and decades but somehow this was not taken up in the manner that now it has been taken up.

We all know there is huge tax gap in the economy, the provinces are actually better equipped in my judgment to deal with some of these issues which you will be confronted with now at the local level obviously it is going to take some time before you are able to gear up yourself but of course you are already showing some extremely good results and I must congratulate the management for achieving that in a very, very short span of time. But you see futuristically if you look at it internationally primarily there are two taxes which are the taxes of the future. One you can say is the income tax or the corporate tax; and the other is the sales tax both on goods and services, or VAT in some countries as we call it.

The gap that I mentioned is so vast and predominantly in these two taxes as a matter of fact. You have initiated the process with 10-12 services and you have actually a potential long list maybe ten times more than what you started with. Now the thing is that first of all we should be trying whether at the federal level or the provincial level to first plug the gap. In fact the gap is based on what is your actual potential or whatever you have already taxed or what it is that you are actually collecting as opposed to that. According to a latest study, it is about 79% of the taxes that we actually collect, so that is a huge difference. If we are actually able to organize ourselves which is the effectiveness of the system and procedures and in this day and age technology is of course of great help in that regard. When you actually have that ability created

for yourselves you actually find it much easier to manage the things as opposed to not having any tools of the trade I call it for actually doing your work as managers. So this initiative which SRB has already taken to automate the environment totally, they are having the advantage of starting a-fresh and this is the right basis to take this start and you have to obviously develop on it and see wherever other gaps exist and plug them.

Eventually the way I would like to look at it that all the other provinces will also come up, we already see that Punjab has taken up the initiative and I am sure others will follow and eventually these five bodies will that is FBR and the four provincial bodies will have to very closely interact and have to be networking together. Information that is collected let us say at the FBR level, he will be the same person or the same company but you are dealing with him separately and they dealing with him separately and the information he is providing both is different. Now if you actually are interacting closely as a networking system he will not be able to get away.

Now that you have taken the initiative on the services side for instance you find out he is reporting to you, he is filing his returns, his sources of revenue are and as opposed to that he is also filing his return for income tax. If we are not able to coordinate closely so he could be reporting Rs.100 as his services rendered collections and could only be reporting Rs.10 as his income for income tax purposes. So if you are able to connect the two you will definitely plug the gap on a national basis and vice versa. It could be that there is data warehouse available where the information on that individual or company again that he has acquired this asset, he has this, he has that – all that information would also be helping you to counter check on whatever he is reporting to you.

So the tax gap in my view is the one starting point where the effectiveness and efficiency of the system and procedures, mind you all over the world no one wants to pay taxes but it is only because of the effectiveness of their systems and procedures that you are forced literally and you cannot get away.

So this is in fact a very good starting point which you have already adopted and I wish and hope and pray to Allah that you will succeed further and expand it further, and go to any extent, go to any limit required. I believe and feel that the element of cost whether it is in the form of hardware or software investment is peanuts in relation to the outputs that you are likely to achieve.

So this is one aspect and one area which we nationally are to work on and see how we can bring this gap down and achieve in tax and GDP ratios and other part is of course the tax policy part. Now in the case of tax policy we again see historically there is a distortiveness in the whole system.

Equity demands irrespective of the source of income, no matter where it is coming from as long as it is above the threshold levels that you have fixed, it has to be taxed at par irrespective of its source. So what we see today is that there is a source like the agricultural income which let us say contributes 22% to the GDP and maybe less than 1% to the taxes, obviously it is not equitable and similarly your services sector which is like about 54% of the GDP, today if you look nationally again it is contributing less than 30%.

There is this obvious gap and eventually as a policy an ideal situation should be that whatever you collect that will be the total taxes both at the provincial and federal level you should be able to match the contributions to the GDP vis a vis the contribution to the taxes. So this is what the policy would demand and for management purposes I think they are on the right track because we must understand there is a win-win situation only. If we have a win-win situation only then we will be able to succeed. Now who are our stakeholders – one the government, whether it is the provincial government or the federal government – the major stakeholders because they need to have the revenues; second the tax payers – again they are your stakeholders and third the staff. Now these three stakeholders need to be having an environment which is a win-win situation for all.

For instance we maximize the revenues; that is in fact a good thing for the government or the government should be happier; we actually facilitate the tax payers to the maximum extent possible, of course the non-compliant ones you need to have a system for penalization, etc., but for the compliant tax payers you have to facilitate them, you have to simplify them, you have to see wherever you can help them and again you have taken those initiatives in the way of call centers, responding to their emails etc., third important element is your staff, they need to have requisite know-how, the training – you know you need right people for the right job – then of course they have to be looked after. They have to feel comfortable in the environment that they work in. When I was hearing this morning that there are a total of ninety people in SRB today, maybe this is the reason why you are doing so well. I would also like to suggest that you should try to keep it in a restrictive manner. Don't think the human resource or the spread of human resource necessarily results in improvement in returns or results because nowadays if you look back in history probably it was the case but nowadays it is technology which is going to help you and facilitate you. So you don't need the same number of hands as you used to maybe fifty years ago.

This certainly is a very welcome move and I would like to just congratulate you on one hand and wish you the very best of luck and hope that others will also follow suit soon and that in fact should help the whole country because today I believe that our number one problem is resources. You see the level of the deficit that we are operating under, almost Rs. 1.5 trillion a year, now if we keep on borrowing this money and keep on increasing our debt; I don't think how we can be

really sustainable as a matter of fact on this basis. Of course we do have the expenditure side which also needs to be looked at but expenditures number one item is debt servicing, number two is defence and number three is public sector entities with their subsidies, etc, another item is the subsidy level should be dealt as fast as possible to minimize it or eliminate it if possible but with the other two you are really stuck as a matter of fact. So what options do we have, we have to go for huge resource mobilization effort and that is where all the stakeholders, that is the four provinces and federal government would need to be doing that and those are the right way forward. Sindh has taken the lead, thank you and best of luck.