



Tax Burden on Entrepreneur and High Salaried Banker

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Cost of the Government Day (COGD) is a concept used to identify the day on which an average citizen has earned enough gross income to pay off his or her share of the spending and regulatory burdens imposed by government. This exercise is done to calculate the COGD for citizens of Pakistan. And cases of two hypothetical Pakistani individuals; an *Entrepreneur* and a *High Salaried Banker* are considered to demonstrate the taxes imposed by government.

Tax Burden on Entrepreneur and High Salaried Banker

Cost of Government Day (COGD) is the date of the calendar year on which the average Pakistani worker has earned enough gross income to pay off his or her share of the spending and regulatory burden imposed by government at the federal, provincial and local levels.

The Cost of Government is the number of days spent by average Pakistani worker to pay for the taxes imposed by the government.

We have considered two hypothetical Pakistani individuals to demonstrate the taxes imposed by the government and the cost of government to each individual. The two hypothetical individuals include:

- I. Entrepreneur who imports equipment but markets the manufactured product domestically
- II. High Salaried Banker who earns more than one million annually

Case I: Tax Burden on Entrepreneur

Our hypothetical manufacturer develops standard products as well as customized solutions in the fields of Telecommunications, Alternative Energy, Special Purpose Electronic Modules, and Management Systems.

The Corporate Tax Rate in Pakistan stands at 34% for the year 2014. Since, the manufacturer's income is Rs.250 million approximately each year, so an amount of Rs. 85 million is paid as income tax.

The amount of dividend received during the year is worth Rs. 25 million. An amount of Rs.2.5 million of the dividend amounts is paid as tax. The manufacturer pays excise tax worth Rs.1.6 million.

The basic utility bills consist of Electricity, Gas, Telephone (landline) Cable Internet (if other than cable), the general sales tax of the utility bills are also included to the cost of the government which is imposed on the company. The company uses electricity of Rs. 0.125 million each month which includes General Sales Tax of Rs.21, 250. The expenditure on SUI gas each is Rs.70, 000 per month which includes General sales tax of Rs.11,900. The Telephone bill paid by the company is Rs. 0.1 million with General Sales Tax paid as Rs. 22,000. The factory has 135 employees who use water of Rs.3000 per month mostly for sanitary purposes. A cost of Rs.510 is the tax paid in the total bill.

The land of the factory is the most valuable fixed asset. Government receives tax from the real estate owners. Therefore, an amount of Rs 0.112 million is paid by the manufacturer each year for the property of Rs.3 million.

The company makes imports of Rs.80 million annually; it pays custom duty of Rs.12 million for the imports made.

There are 12 vehicles for factory use, for which Rs.

0.1 million is paid as tax collectively. The vehicles

consume 3,000 liters per month which costs Rs. 0.328 million to the entrepreneur. Rs.82, 005 is paid as tax which is included in the petrol bill.

The company pays a Sales tax of Rs.5 million for the annual revenues generated of Rs. 29.4 million.

Cost of Government for IT Entrepreneur

You work till this day for
Government

MAY 14

Type of Tax	Monthly payment(in Rs)	Annual payment(in Rs)
Income Tax		85,000,000
Taxes on dividends		2, 500,000
Excise Tax		1,600,000
General Sales Tax on Electricity Bill	21,250*12	255,000
General Sales Tax on Sui gas Bill	11,900*12	142,800
General Sales Tax on Telephone Bill	22,000*12	264,000
General Sales Tax of water	510*12	6,120
Property Tax		112, 000
Custom duty		12, 000,000
Tax on vehicle		100,000
Fuel Tax		82,005
Sales Tax		5,000,000
Total		92,449,925

The entrepreneur is paying tax of Rs. 92,449,925 per year in the form of several taxes, which makes $(92,449,925/250,000,000)*100=36.97\%$ of the total income is given as taxes.

Therefore Cost of the Government:

$$(36.97 * 12)/100 = 4.45$$

Our hypothetical entrepreneur spends 4.45 months of the year working for the government which means he is working for the government till May 14.

Case II: Tax Burden on High Salaried Banker

The banker is a corporate head of a leading commercial bank of Pakistan. The banker earns Rs. 10,259,700, which is approximately Rs.850, 000 each month. The amount of tax payable on Rs.10 million is Rs. 2.4 million.

The banker owns a house of Rs.30 million, an amount of Rs.45, 000 is paid as a property tax annually.

The utility bills include electricity, water, SUI gas and telephone bills as mentioned above. The electricity bills costs Rs. 45,000 each month because of the various electrical appliances used. An amount of Rs.7, 000 is paid each month against this usage which is included in the utility bill.

The GST of Rs. 180 is paid for SUI gas bill of Rs.1200 each month. A tax of Rs.750 is levied on the high salaried banker if his monthly PTCL bill costs 5,500. Whereas; General Sales Tax of Rs.75 is paid for the consumer's water bill of Rs. 500 per month.

The cellular connection per month costs him Rs. 4,000, with a general sales tax of Rs. 600.

The general sales tax on more than 40 necessary household grocery items i.e. Tea, sugar, flour etc. is Rs.8,500 monthly according to the 17% General Sales Tax imposed by the government. The cost of these items would be nearly Rs.50, 000 per month.

The corporate head owns two cars i) 1,600 cc car and ii) 2,000 cc car for which an amount of Rs.

4,000 and Rs.8,000 is paid as tax respectively. The cars consume 450 liters each month for which 25% fuel tax is included to the petrol bill. So the amount spent on buying the petrol:

$$450 \times 109.34 = 49,203$$

Out of this amount 12,300.75 is paid as fuel tax in the petrol bill.

Cost of Government for
High Salaried Banker

You work till this day for
Government

March 30

Type of Tax imposed	Monthly(in Rs)	Annually(in Rs)
Income tax	-	2,312,500
Tax paid for motor vehicle	-	4,000
General Sales Tax paid for Grocery		8,000
Tax on Real Estate	-	45,000
General Sales Tax on Telephone landline	750*12	9,000
General Sales Tax on Cellular network connection	600*12	7,200
General Sales Tax on SUI gas	180*12	2,160
General Sales Tax on electricity	7,000*12	84,000
General Sales Tax on water	75*12	900
General Sales Tax Grocery Items	8,500*12	102,000
Fuel Tax		12,300.75
Total Tax paid per year		2,587,060.75

The high salaried banker is obliged to pay an amount of Rs. 2,587,060.75 per year in the form of several taxes, which makes $(2,587,060.75/10,259,700)*100 = 25.21\%$ of the total income is given as taxes.

Therefore Cost of the Government:

$$(25.21*12)/100=3.02$$

The high salaried banker spends 3.1 months of the year working for the government which means he is working for the government till March 30.

The entrepreneur invests in the business in order to earn profits and maximizing its own utility but our results show that the entrepreneur spends 1.5 month more compared to the high salaried banker to pay for the cost of the government. Our results imply that the entrepreneur in Pakistan is worse off despite the fact that he owns his own business whereas the high salaried banker in Pakistan is better off. The Federal Board of Revenue must review the taxes to reflect the riskreward profile of entrepreneurs and salaried professionals appropriately.