



Federal Flat Tax Proposal

Huzaima Bukhari, Dr. Ikram ul Haq, Syed Ijaz

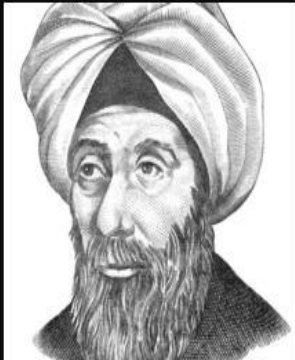
Ali Salman

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www.primeinstitute.org Email: ali@primeinstitute.org

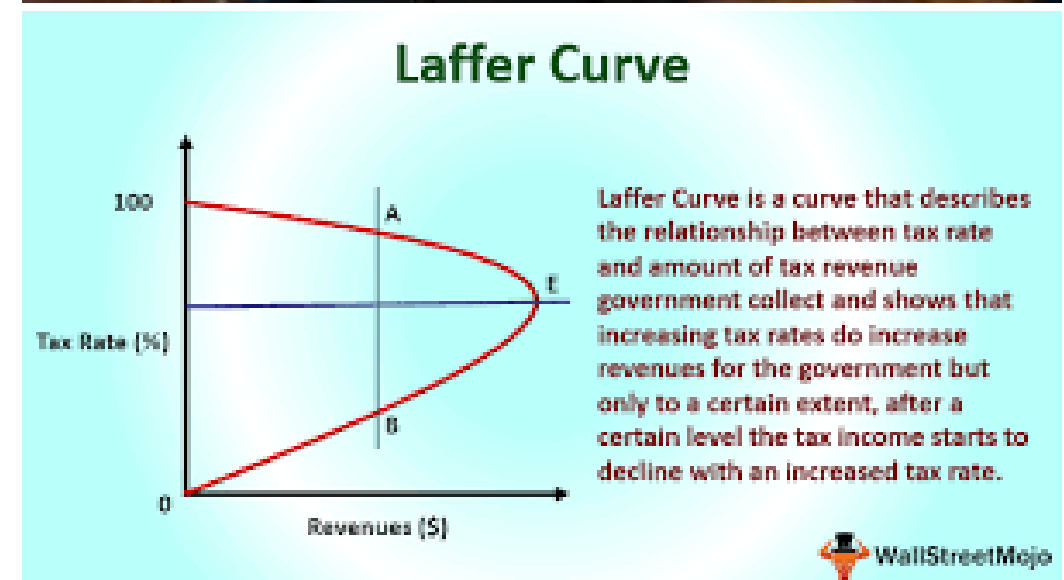
From Ibn Khaldun to Dr. Arthur Laffer...

Ibn Khaldun



At the beginning of a dynasty, taxation yields a large revenue from small assessments. At the end of the dynasty, taxation yields a small revenue from large assessments.

AZ QUOTES



Tax rate reduction & simplification can increase growth & tax revenue



Ronald Reagan
(40th U.S. President,
1981- 1988)

Tax Cuts: Doubled Tax Revenue:
\$500 billion to \$1 trillion

- Across-the-board 25% reduction
- Reduced the number of tax brackets to 2:
 1. 15% for the middle class
 2. 28% for the wealthy

Source: <https://www.heritage.org/taxes/commentary/reagan-s-tax-cutting-legacy>



Alexi Aleksishvili
(Minister of Finance, Georgia,
2004-2007)

Tax and Customs Reforms: Georgia improved from 132nd place to 18th in the ranking of “Ease of Doing Business”

- Reduced the no. of taxes from 22 to 7
- Reduced the national tax burden from 45% to 27% of GDP
- Increased tax compliance rate from 13% to 25% of GDP

Source: https://www.un.org/esa/dsd/csd/csd_csd14_bureau.shtml



The Case of India

Single GST replaced the VAT

(1 July 2017): Increase in Tax Base & Revenue Collections

- New GST registrations increased by almost 90% (12.3 million active GST registrations, as on 31 March 2020)

Time Period	Revenue Collection
FY 18*	INR 7.14 Trillion
FY 19	INR 11.7 Trillion
FY 20	INR 12.2 Trillion

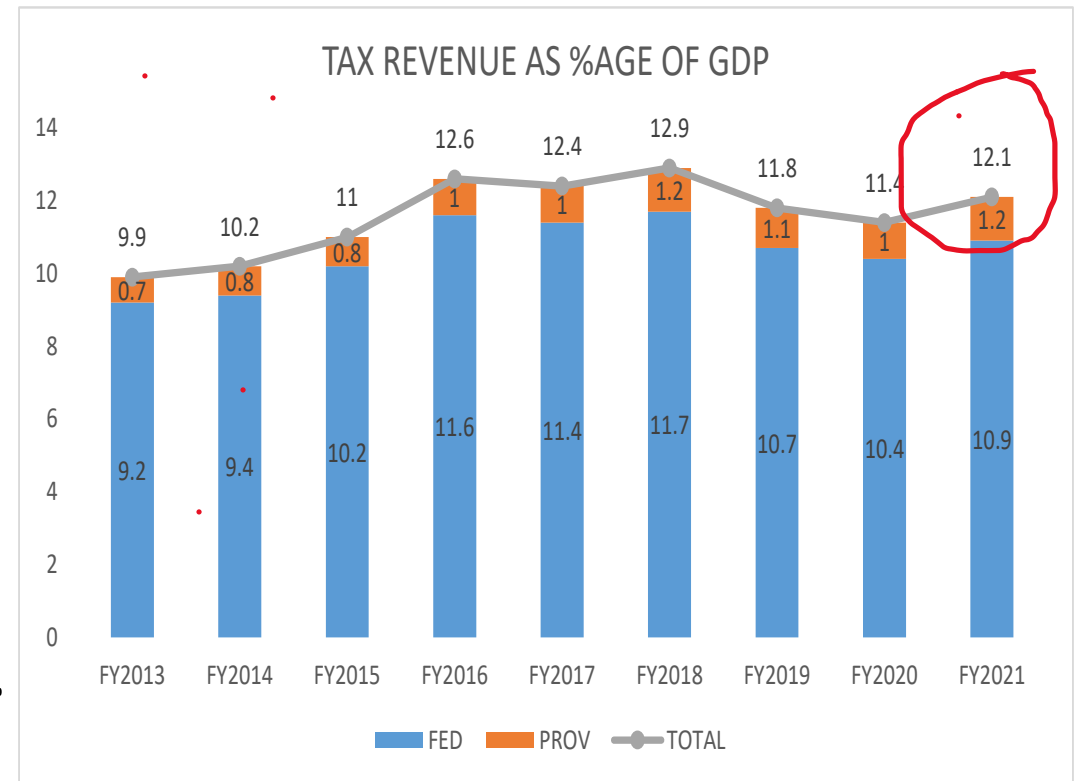
Source: <https://www2.deloitte.com/in/en/pages/tax/articles/three-years-of-gst.html>

What is wrong with our tax policy & system?

- **HIGH RATE:** High Rates of Corporate Tax, (39% vs. 23%), High Rate of Applied Sales Tax (17% vs 6-9% in China; effective GST: 6.84%)
- **DISCRETIONARY AND UNCERTAIN:** 310 SROs issued in 2 years
- **BURDENSOME:** High number of WHT taxes (60 +, 70% of Direct tax revenue)
- **ANTI-EXPORT:** High level of import taxation (40% of tax revenue)
- **COMPLICATED:** Filer/Non-filer distinction; Too many exemptions
- **REGRESSIVE:** Significant reliance on import and indirect taxes.
- **TAX EVASION:** Amnesties reward tax evaders and cheats.

What is wrong with our tax debate?

- Tax to GDP ratio focus is misplaced.
- How much government and expenditures do we need?
- Tax expenditure, tax exemptions need to be slashed.
- Leakages of revenue in inefficient SOEs and electricity system should be plugged.
- PSDP should be reviewed.



PTI government: their tax reforms are tinkering with system.

- Policy separated from Administration.
- In 9000 tariff lines, Customs Duty is brought down.
- (However, Additional Customs Duty and Regulatory Duties imposed.)
- Threshold for Withholding Tax has been increased.
- Regulatory Duty on smuggling prone items reduced that helped.
- Improvements in enforcement have been seen.
- **YET, THEY ARE NOT TRANSFORMATIONAL.**

What needs to be done? Federal Flat Tax Proposal

New Tax Policy

Low-rate

Flat

Broad-based

Predictable

New Tax Rates

Income Tax
on
Salaries/AoP
5%-35% >>
10%

Income Tax
for
Corporate
29% >>**20%**

Single Stage
HST for all
entities
17% >> **5%**

Customs
Duty
0-20% >>
5%

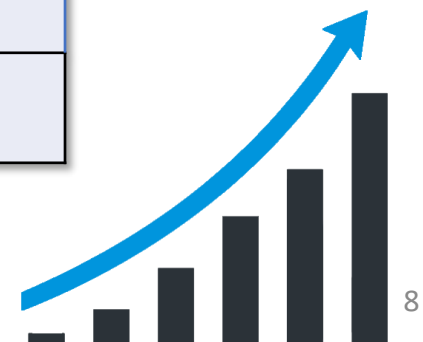
Revenue Calculations: Current and Target

	2020-21 (PKR 'B')*	2021-22 Proj. (PKR 'B')**	2025-26 Target (PKR 'B')***
Income Tax	1,726	2,182	5,664
Sales Tax	1,981	2,506	2,262
Customs Duty	747	785	253
FED	280	356	405
Total	4,734	5,829	8,584

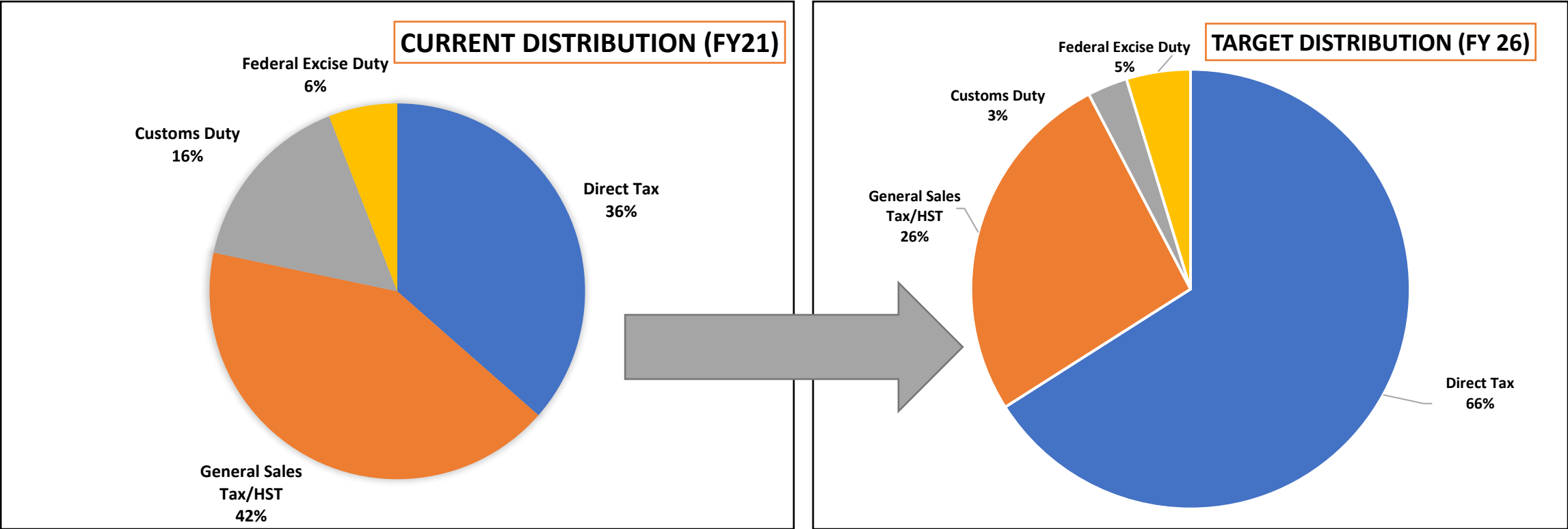
* FBR Year Book 2020-21.

**For TY 2022, estimates are taken from Federal Budget Summary 2021-22.

*** Based on Authors' estimates.



Tax Structure Transformation Goal



Strategy

- In the short-term, we can select a flat rate which will yield same revenue by simplification of tax code in income tax, sales tax and custom tariffs.
- In the medium to long-term, while we will bring rate down, our policy will yield more revenue through a broad-base of taxpayers, who will be encouraged to file income tax returns.
- Diligent enforcement and efficient use of technology will remain prerequisite for all reforms.

Why Flat and Low Tax is Good for All?

- **Good for society** as it is progressive- it will substantially increase the direct tax payers and will reduce our reliance on indirect taxes such as GST and Import Duties which are regressive.
- **Good for government** as it yields more revenue by increasing the base.
- **Good for businesses** as it increases their savings, facilitates operations and multiplies their investments.
- **Good for democracy** as it incentivizes more people demand accountability by becoming taxpayers.
- **Good for FBR** as it discourages tax evasion by making evasion costly and risky. It also simplifies tax calculations and collections.