**PRIME’s Position Paper on Tax Reforms**

In December 2022, the Finance Minister, Senator Ishaq Dar, established the Reforms and Resource Mobilization Commission (RRMC), comprising of 11 members tasked with suggesting tax and economic reforms to the government. According to reports from the media, the RRMC has presented an interim report to the Finance Minister detailing proposed reforms. However, it appears that some of the suggested reforms, particularly those with progressive taxation, require concerning and require reconsideration.

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| **Sr. No.** | **Proposed Reform** | **PRIME’s Response** |
| 1 | Advance income tax of 5 percent on future profits listed companies and 7.5 percent on non-listed companies | Advance income tax discourages economic activity in the country and deprives businesses of necessary capital. Taxing someone for profits which have not been realized yet is imprudent. This proposal is similar to recently introduced deemed income tax, which was struck down by the courts. |
| 2 | Promoting corporatization by increasing tax on sole proprietors by more than 10 percent | The lackluster response to corporatization can be attributed to the multiplicity of tax rates, such as 29 percent for private companies, 20 percent on small companies and 39 percent for banking companies. The promotion of corporatization can only be achieved through uniformity of tax rates across all categories. |
| 3 | Advance income tax on non-corporate exporters increased from 1 percent to 8 percent | The proposal to increase the advance income tax on non-corporate exporters from 1 percent to 8 percent is also ill-advised. This would discourage exporters, and the tax should instead be collected from the income of exporters. Imposing advance income tax will only deprive exporters of capital, and they will have to wait for refunds from the government. |
| 4 | Additional income tax on exporters who delay the return of proceeds | Exporters have been keeping their export proceeds abroad or delaying the return of proceeds to the country due to multiplicity of exchange rate caused by the government. This has created a parallel currency market, and currency exchangers are carrying out transactions off the books. The elimination of government intervention is required, not additional tax. |
| 5 | Imposition of 1 percent tax on Wholesale dealers, Distributors and Retailers who are filers and 4 percent on non-filers | The broadening of the tax base is important and everyone should pay tax. However, there should be no distinction between filers and non-filers. Those who do not file tax returns should be penalized and not acknowledged as a legal entity. |
| 6 | Withholding tax of 8 percent on commercial importers | The government has made imports a source of revenue, and the collection of revenues at source is highly distortionary. Although the government has tried to tax exporters and importers uniformly, the incidence of advance tax is highly distortionary. Instead, the government can levy reasonable customs duty. |

In conclusion, the proposed reforms by the RRMC are aimed at improving the country's revenue collection, it is imperative to carefully consider their implications before implementation. Tax reforms in the form of increasing tax rates and inclination towards advance tax will only discourage formal economic activity. Instead, the reforms should be based on simplification of procedures, uniformity of taxes and lowering of rates to promote compliance.