<p> <p>ISLAMABAD: The Federal Board of Revenue (FBR), facing Rs 30 billion shortfall in revenue, is seriously considering some new taxation proposals to generate additional revenue in second half of fiscal year 2012-13. </p> <p>{loadposition content_adsense300}The proposals include withdrawal of middle-tier of federal excise duty (FED) slab on cigarettes as one of different options, discussed with the International Monetary Fund (IMF), to overcome revenue shortfall during FY 2012-13.</p> <p>Private sector experts and tax authorities believe that abolishing the middle tier of FED slab on cigarettes will jack up the excise collection from the multinational companies. This proposal apparently only looks at the revenue side of it and takes no account of the socio-economic factors and market realities. There also appears to be little evidence to suggest that it will generate the intended revenue, on the contrary it will seriously impact the legal industry. For starts, the measure could lead to multi-billion loss of duty-paid cigarettes to illicit one resulting in incremental annual revenue of only less than Rs 3 billion by the end of fiscal year - the amount which can be achieved with alternative and reasonable fiscal measures that do not jeopardise the industry sustainability.</p> <p>The FBR proposal, if approved, would mean that the cigarette brands falling in the middle tier will come into the higher slab of the FED attracting 65 percent rate of duty, while the cigarettes falling in the lower segments will move up into the second /base tier. This will drive the prices of the cheapest cigarette price up to a whooping Re 50 per pack.</p> <p>It is noted that the Pakistan market is very price sensitive. The intended proposal will increase most popular brands� retail price by 40 percent, while the consumer price index for the past twelve months was only 10 percent. The proposed tax increase is five times higher than the average disposable income growth for the last year. Per estimates, an increasing gap, up to Rs 15 to Rs 30 per pack, between the cheapest prices of smuggled or duty non-paid products and legal cigarettes is expected to result in 20 percent decline in legal industry volume, 15 billion sticks annually. As has happened in the past, once the volumes are absorbed by the illicit sector, they cannot be brought back into the legal domain through conventional efforts and loss to the revenue and industry is long term.</p> <p>The loss of sales volumes suffered by the legal industry will, almost certainly, be lapped up by the illicit sector, already on the march, given the minimal enforcement indicated by the prevalence of illicit products, both smuggled and local non-duty paid, in the market. Illicit trade is now 22 percent of the market, registering a rise of 60 percent in the last five years. Pine, a Korean brand smuggled into Pakistan, currently sold at Rs 30-35 per pack is a phenomenon worth noting, it has grown by 300 percent in the last two years. Its volume, according to, industry reports is estimated to be two billion sticks. All that with no official dealer or representative for Pakistan and duty non-paid. On the other hand, local cheap non-duty paid cigarettes continues to be sold at a cheap, very affordable, average pack price of Rs 15 in complete violation of health and FBR regulations.</p> <p>Another important impact will be the industry growth; its sustainability and the employment attached to the industry. Lower buying by the legal manufacturers will affect not only the farmers but the entire value chain. One can think immediately of the rising unemployment in the tobacco growing areas of Khyber Pakhtunkhwa.</p> <p>This author tried to confirm that developments from the local manufacturers but they were unaware of the details of the FBR proposal and apparently they have not been consulted. The FBR is keeping the proposal secret this time, for reasons of their own and did not provide any details. It is to be noted that FBR has always consulted the industry, being one of the largest contributors of FED, for their feedback on major excise changes. The overall annual budget contribution of the tobacco industry is around 3.5 percent.</p> <p>The question one naturally is tempted to ask, who is driving such policy

changes that may have implications for the long term industry sustainability, employment and foreign investment. Who is promising huge revenue yield to FBR and whether such a promise is based on some empirical and objective data? Despite guarantees for sovereign decision-making on fiscal matters in the Article 6 of FCTC, the WHO country office engages with the FBR officials to unduly influence such detrimental policy changes to suit their short-term agenda. Collateral promises of funding for projects and foreign training courses for government officials have been used in the past to induce regulatory and fiscal policy changes. It is to be noted that Pakistan has always protected its sovereign right to make its own fiscal decisions at the FCTC Conference of parties.</p> <p>Another question is why the FBR is secretive and in a hurry to make important structural changes to the excise structure which could have long-term revenue implications. It is said that the amendment in Federal Excise Act 2005 will not be put before the parliament for debate and approval; rather a Presidential Ordinance will be the preferred route. Locking the successive government administration on the eve of the induction of the interim government, through ill-considered policy changes, smacks of perfidy. It is to be noted that the current excise structure has been around since 2006.</p> <p>It is strange that simple facts such as the correlation of the proliferation of illicit products and rise of excise on duty paid cigarettes eludes the FBR gurus, stepping up enforcement could generate revenues in excess of Rs 12 billion information. While changing tax structure to a two-tier fully specific model which ensures reasonable excise rates would ensure both additional revenue generation for the current fiscal year and allow predictable excise revenue growth in the following years. Our proposal, coupled with a commitment of the government to enforcement on illicit trade will allow the legal manufacturers to continue to vigorously compete in the market, provide direct and indirect employment to thousands of Pakistani citizens.</p> <p>It is sad that such shortsighted policy changes in Pakistan have damaging impact. Exclusive and expedient decision-making by disregarding compliant large taxpayers sends a bad signal to current and future foreign investors. The interesting part is that any short term benefit will be offset by growing future incidental costs, for example overall impact of increase in illicit trade would mean a higher cost to FBR of tackling it in days to come. It would also lead to increase in criminalisation of the society, especially in Khyber Pakhtunkhwa, costs of which would be hard to calculate- an interesting tradeoff for the government.</p> </p> <p>�</p> <p>Courtesy: Daily Times</p>