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To: H
Subject: Fw: NYT article on tax collection in Pakistan

Have you been dictating to the NYT?? Exactly what you have been emphasizing. AM

From: Catanzano, Amanda M
To: Slaughter, Anne-Marie
Sent: Mon Jul 19 13:42:09 2010
Subject: NYT article on tax collection in Pakistan

Thought you might find this interesting given S' interest in taxation. I knew Pakistan was bad – but this is shocking. 2% of the population paying taxes??? On par with Sierra Leone in tax collection to GDP ratio.

Pakistan's Elite Pay Few Taxes, Widening Gap

By SABRINA TAVERNISE

ISLAMABAD, Pakistan — Much of Pakistan's capital city looks like a rich Los Angeles suburb. Shiny sport utility vehicles purr down gated driveways. Elegant multistory homes are tended by servants. Laundry is never hung out to dry.

But behind the opulence lurks a troubling fact. Very few of these households pay income tax. That is mostly because the politicians who make the rules are also the country's richest citizens, and are skilled at finding ways to exempt themselves.

That would be a problem in any country. But in Pakistan, the lack of a workable tax system feeds something more menacing: a festering inequality in Pakistani society, where the wealth of its most powerful members is never redistributed or put to use for public good. That is creating conditions that have helped spread an insurgency that is tormenting the country and complicating American policy in the region.

It is also a sorry performance for a country that is among the largest recipients of American aid, payments of billions of dollars that prop up the country's finances and are meant to help its leaders fight the insurgency.

Though the authorities have tried to expand the net in recent years, taxing profits from the stock market and real estate, entire swaths of the economy, like agriculture, a major moneymaker for the elite, remain untaxed.

"This is a system of the elite, by the elite and for the elite," said Riyaz Hussain Naqvi, a retired government official who worked in tax collection for 38 years. "It is a skewed system in which the poor man subsidizes the rich man."

The problem starts at the top. The average worth of Pakistani members of Parliament is \$900,000, with its richest member topping \$37 million, according to a December study by the Pakistan Institute of Legislative Development and Transparency in Islamabad.

While Pakistan's income from taxes last year was the lowest in the country's history, according to Zafar ul-Majeed, a senior official in the Federal Board of Revenue, the assets of current members of Parliament nearly doubled from those of members of the previous Parliament, the institute study found.

The country's top opposition leader, Nawaz Sharif, reported that he paid no personal income tax for three years ending in 2007 in public documents he filed with Pakistan's election commission. A spokesman for Mr. Sharif, an industrialist who is widely believed to be a millionaire, said he had been in exile and had turned over positions in his companies to relatives.

A month of requests for similar documents for Pakistan's president and prime minister went unanswered by the commission; representatives for the men said they did not have the figures.

"Taxes are the Achilles' heel of Pakistani politicians," said Jahangir Tareen, a businessman and member of Parliament who is trying to put taxes on the public agenda. He paid \$225,534 in income tax in 2009, a figure he made public in Parliament last month. "If you don't have income, fine, but then don't go and get into a Land Cruiser."

The rules say that anyone who earns more than \$3,488 a year must pay income tax, but few do. Akbar Zaidi, a Karachi-based political economist with the Carnegie Endowment, estimates that as many as 10 million Pakistanis should be paying income tax, far more than the 2.5 million who are registered.

Out of more than 170 million Pakistanis, fewer than 2 percent pay income tax, making Pakistan's revenue from taxes among the lowest in the world, a notch below Sierra Leone's as a ratio of tax to gross domestic product.

Mr. Zaidi blames the United States and its perpetual bailouts of Pakistan for the minuscule tax revenues from rich and poor alike. "The Americans should say: 'Enough. Sort it out yourselves. Get your house in order first,'" he argued. "But you are cowards. You are afraid to take that chance."

Much of the tax avoidance, especially by the wealthy, is legal. Under a 1990s law that has become one of the main tools to legalize undocumented — or illegally obtained — money made in Pakistan, authorities here are not allowed to question money transferred from abroad. Businessmen and politicians channel billions of rupees through Dubai back to Pakistan, no questions asked.

"In this country, no one asks, 'How did you get that flat in Mayfair?'" said Shabbar Zaidi, a partner at A. F. Ferguson & Company, an accounting firm in Karachi, referring to an affluent area of London. "It's a very good country for the rich man. Chauffeurs, servants, big houses. The question is, who is suffering? The common man."

Then there are the tax-free goods supposedly meant for Afghanistan. Mr. Zaidi said much stayed in Pakistan illegally, including 50,000 tons of black tea that were imported last year. Afghans drink green tea.

"As per our information, not a single cup of black tea was drunk in Afghanistan," he said.

Tax collectors try to be tough. When Mr. Naqvi headed the tax authority, he tried to conduct a broad audit, prompting howls of protest. Lawyers from the Lahore High Court Bar Association — also evaders — even issued a ruling against him.

Mr. Majeed said his collectors now use individual electric bills to track down rich evaders, on the assumption that high bills mean air-conditioning, which means wealth. They recently issued hundreds of warnings to rich houses in Islamabad. But going after politicians, he said, is tricky. "Not while they're in power," he said, smiling.

Tax collection has risen by about 20 percent a year recently, he said, though it barely registers as an increase because more than half of Pakistan's economy is off the books.

Lacking the political will to collect income tax, Pakistan resorts to easier measures, like the sales tax, considered less fair because it hits the poor as hard as the rich. Muhamed Azhar, 26, a chauffeur in Karachi with a \$123-a-month salary, pays the same sales tax rate as a National Assembly member who makes \$1,400 a month with benefits. Earnings from real estate and land are rarely declared.

"The big people ruling us have houses and servants, and they should pay taxes," Mr. Azhar said, watching motorcades of sport utility vehicles zip by, en route to the local Parliament. He sometimes wonders whether they are even going to work at all. With all the tinted windows, guards and fuss, he has never actually seen them.

The overwhelming majority of Pakistan's tax burden is carried by the manufacturing sector for the domestic market, which, according to Mr. Majeed, makes up only 19 percent of Pakistan's economy but pays 51 percent of its taxes.

Most economic activity takes place in the shadows. Merchants — the most vociferous opponents of a value-added tax, a tax the International Monetary Fund has pressed Pakistan to adopt largely because it would require documentation — make up a fifth of the economy, but carry 6 percent of its tax burden. Out of millions of shops in Pakistan, just 160,000 are now registered for a general sales tax, Mr. Majeed said.

Particularly galling for Pakistan's middle class is the lack of a federal tax on agriculture, an industry that employs nearly half of Pakistan's population and whose profits go largely to the wealthy landowners who pack local Parliaments. When the World Bank finally forced adoption of a modest provincial tax in 1997 as a condition for a loan, few paid.

Mr. Tareen, the member of Parliament, said that when he first tried to pay, tax collectors refused to take the money, not wanting to rock the boat. He had to write a letter to a senior official to have it accepted.

It was not always like this. Nasir Aslam Zahid, a former Supreme Court justice in his 70s, blames what he calls moral decay in Pakistani society, in which respect for rules has fallen, merit has been forgotten and cheating has become a way of life.

"In my time, it was considered a moral thing for a person to file a tax return," he said. "Today, corruption has broken all records."

Salman Masood contributed reporting.