

There are two options with the State to increase tax collection; one install business would result in more taxes. It would also help grow the economy. Second, increase the tax ratio in order to meet expenditures. But it would hit the business and growth badly. The government of Pakistan has opted for the latter option. Critically evaluate the budget of Pakistan in the light of the above statement.

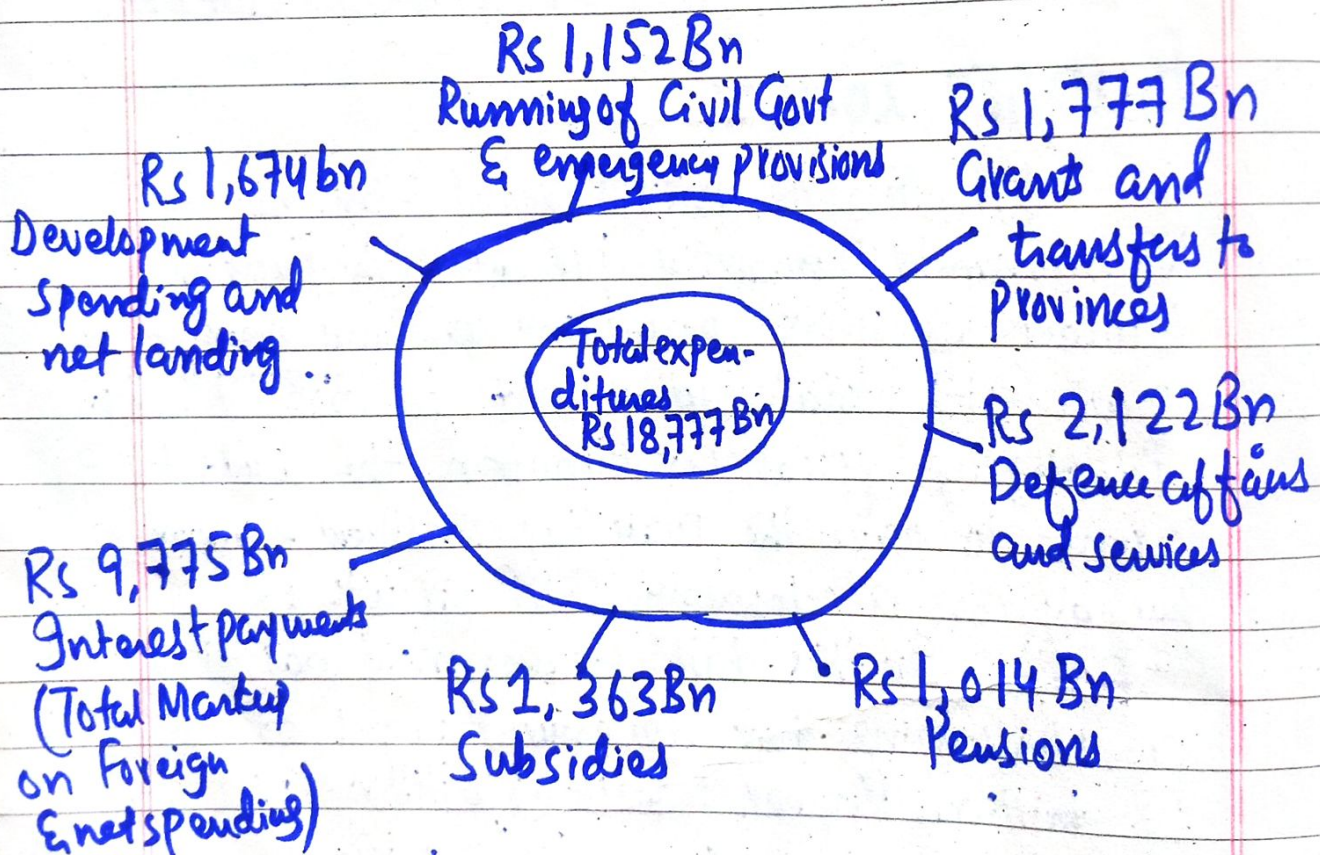
1. INTRODUCTION TO PAKISTAN'S FEDERAL BUDGET 2024-25

On June 12, 2024 Federal Minister Muhammad Aunangzeb presented the Federal Budget 2024-25 presenting a comprehensive plan with total outlay of Rs 18.877 trillion. Prioritizing fiscal consolidation, the budget aims to pave the way for resilient economy by accelerating GDP growth of 3.6%. In this bill, government has fixed a challenging tax revenue target of 13 trillion Rupees (\$46.66 billion) for the next year, a near 40% jump from the current year. While the budget aims to lay foundation for sustainable economy, it raises concerns over the increase of tax ratio which will once again hit the poor segment of society. ~~and it also~~ The budget has invoked widespread criticism.

as it seems to be taxing the taxed again.

2. EXPENDITURE BREAKDOWN

The total expenditure for the FY 2024-25 is estimated at Rs 18,877 billion with spending on development, civil government and energy provisions, provincial grants, defence services and subsidies. The debt servicing is estimated at 9.8 trillion Rs, which is one of the largest expense.



3. REVENUE GENERATION STRATEGIES

The government has set a challenging total tax revenue budget at Rs 17,815 Billion. The net revenue after provincial transfers is Rs 10,377 Bn. The government has

tasked FBR with the target tax collection of set at Rs 12,970 Billion which is 40% increase than previous year highlighting the focus on enhancing tax revenue.

4. BUDGETING FOR A BETTER FUTURE?

A Critical Analysis of the Federal Budget's impact on the poor

a) ~~IMPLICATIONS OF~~ INCREASING TAX TO GDP RATIO

In order to increase tax collection, the government opts for one of the two options. Either it installs business resulting in increase of taxes or it increase the tax to GDP ratio to meet expenditures. A thorough examination of new FY 2024-25 budget shows that State has opted for the latter option by setting tax collection target of Rs 12,970 Billion - a significant 40% increase than previous year. The majority of Pakistanis felt dejection over after hearing the budget speech because there will be no relief for them. The real cause of disappointment is continuation of an unjust tax system that expropriates away a large sum of income from the lower ~~and~~ class ^{and} class salaries persons by increase in annual income tax and e. petroleum & prices

B) THE OVERBURDENED LOWER CLASS AND SALARIED CLASS

Changes in Minimum Wages and Salaries

Proposal for minimum wage increase = Rs 37,000
 Salaries from grades 1-6 increased = 25%
 Salaries from BPS 17-22 = 20%
 Pension increase = 15%

Although the budget on one side has increased the minimum wages and government salaries accordingly, it, on the other side, has increased income ~~wages~~ taxes annually. As a sign of relief, the government has not changed income tax upto Rs 600,000 earning annually, however the progressive tax rates for income above Rs 600,000 is calculated at increase of 15-45%. With the sky-rocketing inflation and exacerbating tax burden by being the tax-filers, the present budget is declining the standard of living for the salaried class. Higher prices for essential goods and services due to ^{increased} taxes also reduce purchasing power. The huge section of Pakistan's economy is undocumented, due to which the non-filers and ^{various} other entities like domestic workers, small businesses and real estate sectors are operating outside formal registration. This shadow economy concept has ~~not~~ not only .

Reduced Pakistan's tax to GDP ratio but also put wholesome burden on salaried class for paying high annual taxes.

c) TAX HIKE ON PETROLEUM LEVY

In the FY 2024-25, the petroleum levy is increased by Rs 20 on petrol and diesel, Rs 25 on kerosene, light diesel, high octane and e-10 gasoline to raise additional revenue. In the outgoing fiscal year, the government collected Rs 960 Billion from petroleum levy, surpassing the original target of Rs 869 bn. The budget for upcoming fiscal year projects an additional Rs 321 bn in collections. With such increase and tax collection target, the government is committed to tackle inflation which presents a contradictory situation. Currently, inflation rate goes in 28% but for next fiscal year, target is set to reduce inflation at 12%. However, tax hike on petroleum levy is ~~bound to lead to~~ ~~access~~ followed by price increase on goods and services, which seems to exacerbate the inflation more instead of reducing it.

d) ECONOMIC ALIGNMENT ON ~~ECONOMIC ALIGN~~ IMF REQUIREMENTS

The budget proposal vividly reflect the government's effort to comply with IMF's requirements as there is no Plan B for

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economic sustainability, according to Foreign Minister Muhammad Aurangzeb. Recently, in July 2024, IMF has reached Staff Level Agreement on \$7 Billion Bailout Package. However, availing the loan requires compliance with IMF guidelines - the most basic demand is to increase the tax to GDP ratio to drive the country out of political and economic ~~instability~~ ~~to~~ unsustainability. For this, govt has assured an increase of 3724 Billion Rs tax revenue in next 3 years. It is evident from the budget, that increasing tax to GDP ratio to meet expenditures is according to IMF guidelines, however it is also expected ~~that~~ hit the business and growth badly.

CONCLUSION: The budget has laid some ambiguous targets in line with demands of IMF to help strengthen Pakistan's economy. However, The tax target are unable to achieve without documentation of the economy and registering non-filers to come into category of filers. Without robust policy changes and new measures for tax collection, such budget lays ~~to~~ ~~has~~ the potentially target the lower class and middle class and also affects business and market growth due to ^{increasing} inflation. Hence, prudent ~~policy~~ economic measures are necessary to bolster economy and ^{facilitate} public as well.