

# Justice and Taxation: Why wealthy individuals should pay their fair share

## 1- Introduction

Wealthy individuals should fairly pay their taxes for promoting sustainable development. The unfair tax system causes the country to suffer from economic inequality. However, justice in taxation can be ensured by taking effective measures.

## 2- Why it is important for wealthy individuals to pay their taxes justly

## 3- Why wealthy individuals should fairly pay their taxes

- a- Integral for economic prosperity of the country
- b- Essential for preventing accumulation of wealth in few hands
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- a- Prevalence of white collar crimes
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- g- Increase in social issues

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# Justice and Taxation: Why wealthy individuals should pay their fair share

Amidst political shifts and economic crises of a country, unfair taxation poses one of the greatest challenges to its economic resurgence. A fair <sup>tax</sup> system, in which wealthy individuals pay their equitable share as a tax, is the only strategic lifeline towards sustainable economic development.

This equitable contribution of the wealthy will certainly unlock a gateway to growth.

It is essential not only for the economic growth of the country but also for preventing accumulation of wealth in few hands, eradication of social stratification, improving governance structure and devolution of power to grass-root levels. However, the unfair tax system, that spares the wealthy for not paying their fair share for the sake of economic resilience of the country, will result in drastic repercussions. These consequences include prevalence of white collar



crimes, poor law enforcement, formulation of laws that favors only the rich, high inflation rate, growing social issues, stagnant economic conditions and increased social stratification in the society. But justice in taxation can be ensured by strengthening legislation for fair taxation, improving tax collection models of the country and strengthening the role of institutions for countering money-laundering in the country. In a nutshell, wealthy individuals should fairly pay their taxes for promoting sustainable development. The unfair tax system causes the country suffering from economic inequality. However, justice in taxation can be ensured by taking effective measures.

It is important for wealthy individuals to justly pay their taxes because this justice in taxation encapsulates a myriad of opportunities for the country that promise to redefine its trajectory towards prosperity. Embracing this tax

system will open floodgates for all countrymen to a wealth of resources. Because today due to unfair tax system of Pakistan, the tax evasion is estimated around Rs. 5.8 trillion annually and 60% percent of the annual tax collection is coming from Value Added Tax (VAT) which hits the salaried class only (Tribune, Unfair Tax System, February 2024). However, by ensuring that the wealthy individuals justly pay their share all citizens will get an equal opportunity to avail themselves of the resources of the country.



Wealthy individuals should fairly pay their taxes because it is integral for the economic prosperity of the country. The taxes of wealthy individuals will certainly bolster the economy of ~~Pakistan~~ <sup>the country</sup>. The earnings of these individuals represent a hefty chunk of national economic landscape, but GDP of ~~Pakistan~~ <sup>the country</sup> ~~is~~ <sup>continues</sup> ~~still~~ <sup>to shrink</sup> ~~shrinking~~ due to unfair tax system. This is because the government of ~~Pakistan~~ <sup>taxes only</sup> is ~~losing only~~ the underprivileged for generating revenues, which ~~is causing~~ <sup>causes</sup> collapse of local industries. **For instance,** cement sales <sup>of Pakistan's</sup> local industries dropped by 6.81 percent in July 2024 compared to the same month of last year, causing trade deficit of \$19.51 billion during FY 2023-2024 (SBP, Trade Deficit of Pakistan, July 2024). Thus, wealthy individuals should be taxed fairly for strengthening local industries and ensuring economic prosperity of the country.



Another aspect that clearly highlights the importance of justice in taxation is that <sup>equitably</sup> taxing the ruling elite of ~~Pakistan~~ <sup>the country</sup> ~~equitably~~ will surely prevent the accumulation of wealth in few hands. It will encourage circulation of wealth among the hands of all countrymen. Injustice in taxation causes formulation of policies that favor only the wealthy at the expense of rest of the state, leading to accumulation of wealth in few hands. Its one of the best examples is of Pakistan where Independent Power Plants (IPPs) have received Rs. 406 billion in addition to regular subsidy for electricity bills. But the primary beneficiaries of this policy are the owners of IPPs not the consumers who are struggling with electricity tariff rate of Rs. 35.5 per unit (NEPRA, Electricity Tariff rate, July 2024). That is why wealthy individuals should be taxed fairly for formulation of <sup>policies that prevent</sup> accumulation of wealth in few hands.



In addition to preventing accumulation of wealth in few hands, wealthy individuals should fairly pay their taxes for initiating development projects in the country. A fair tax collection system encourages stakeholders to invest in development projects. ~~This~~ <sup>This system</sup> ensures that the government collects sufficient revenue from all the segments of society, providing the necessary funds to invest in development projects. Its one of the magnificent examples is of Denmark where tax to GDP ratio was 43.8% ~~in~~ <sup>percent</sup> in 2023 because it fairly collects taxes from the wealthy. Through fair taxation Denmark generated revenue of \$184.05 billion in 2023; ~~whose~~ <sup>its</sup> significant portion was invested in development projects of 2023 to 2024 (**The Guardian, Tax System of Denmark, March 2023**). Thus, it is essential for wealthy individuals to fairly pay their taxes for initiating development projects of the country.



Moreover, wealthy individuals should fairly pay their taxes for eradicating social stratification. Social stratification is directly associated with tax system of a country. When wealthy individuals are not taxed fairly and the burden of generating country's revenues is imposed on the middle class and lower class of a country, the social stratification exacerbates. Its starkling example is Pakistan where 10 percent of the total population own more than 50 percent of the country's assets whereas the bottom 40 percent live on a meagre 17 percent of country's wealth (World Bank, social stratification of Pakistan, March 2024). So, wealthy individuals should be taxed fairly for eradicating social stratification of the country.

When the <sup>ruling elite</sup> (bourgeoisie) fairly pay their taxes, accountability before the law increases. It ensures adherence to the rule of law. One of the primary achievements of a fair tax system, which treats everyone equitably, is that it ~~ensures~~ upholds the rule of law in a state. New Zealand consistently ranks high in global indexes for its transparent tax collection system that has helped the country in maintaining



high level of accountability before the law (World Economic Forum, Transparency in Tax System of New Zealand, 2023). This clearly shows that it is inevitable to fairly tax the wealthy for ensuring accountability before the law.

Another aspect that clearly highlights the importance of the fact that wealthy individuals should be taxed fairly is that it ensures devolution of power to grass-root levels. This fair tax system will strengthen the local governments of a state, transporting power to grass-root levels.

However, when only the elite class enjoys all the privileges and the underprivileged struggles with high tax rates then it is impossible to expect devolution of power ~~to~~ <sup>to</sup> grass-root levels.

Because in such cases power is grasped within the hands of the powerful segment of society.

Pakistan presents its one of the best examples where <sup>the whole</sup> Sindh has been controlled by single party because this party owns more than 2.5 lakh acres of land in Sindh (Dawn, Assets of

Political Parties in Pakistan, August 2023). That

is the only reason due to which power has never devolved to grass-root levels in Pakistan. Thus, it is vital for wealthy individuals to fairly pay their taxes for (strengthen) devolving power to lowest levels.



The wealthy should fairly pay their taxes for improving governance structure of a country. This fair tax system will not only improve the local government structure of a state but also strengthen the overall governance structure within a country. When all wealthy individuals fairly pay their taxes, the accountability of the ruling elite before the state increases which strengthens the governance structure of a country. Its one of the best examples is of **Scandinavian countries** which have the best governance structure and its reason is deep-rooted in its fair tax collection system. This tax system has increased accountability of politicians before the state, leading to one of most effective governance structures of the world (**David Arter, Scandinavian Politics Today, 2008**). Thus, wealthy individuals should fairly pay their taxes for improving governance structure of a country.



But when the wealthy individuals do not fairly pay their taxes, the country will face drastic repercussions in the form of formulation of policies that favor only the rich. This causes socio-economic hurdles for the rest of the country. In such countries, only those policies are formulated that allow the elite class not to pay their taxes and impose the whole burden of country's revenue generation on the poor public through indirect taxation. Its clear example is the <sup>Pakistan's</sup> budget of 2024-2025 in which "Punjab has budgeted only 0.07% of their budgets as agricultural income tax due to <sup>political</sup> influence of powerful land-owners." On the other hand, General Sales Tax (GST) on consumer goods has seen a rapid surge from 10% to 18%. (**Dawn, Pakistan's Budget of FY 2024 to 2025, July 2024**). This clearly shows that when wealthy individuals do not fairly pay their taxes, the country suffers (from<sup>x</sup>) due to formulation of policies that favor only the rich.



The formulation of unjust <sup>economic</sup> policies leads toward poor law enforcement in the country. When the wealthy individuals freely exercise an unbridled control over all the resources of a country then the country suffers due to lack of law enforcement. The <sup>state's</sup> institutions become deteriorated due to corruption and interference of politicians with law enforcement agencies.

According to **Dr. Ishrat Hussain**, the stakeholders of Pakistan prefer their vested interests to the welfare of the state while formulating laws and policies. This is the primary cause of institutional decay and poor law enforcement in the country (**Governing the Ungovernable, 2007**). So, unjust tax system leads the country toward poor law enforcement.

The poor law enforcement in the country causes prevalence of white collar crimes in the country. An unfair tax system gives rise to culture of corruption which is clearly reflected in the form of white collar crimes in the society. When wealthy individuals do



not fairly pay their taxes, the number of shell companies increases rapidly in a country. For instance, the Federal Board of Revenue (FBR) of Pakistan has reported that four shell companies accused of laundering Rs. 16 billion are involving influential figures from business and political realms (Al-Jazeera, Prevalence of Shell Companies in Pakistan, January 2024). This clearly shows that when wealthy individuals do not fairly pay their taxes, white collar crimes prevail in that society.

Another consequence that the country will face due to unfair tax system is the stagnant economic conditions of the country. Due to accumulation of wealth in few hands of the country, the state suffers from acute financial crises. The poor governance structure and increased tax rates for the underprivileged segments of society slow down the growth of domestic industries and increase the foreign debt. **For instance**, due to increased tax rates for local industries the economic growth of these industries has slowed down and the volume of foreign debt has increased upto \$131 billion by the end of December 2023 (SBP, Pakistan 3



Foreign Debt, January 2024). This highlights the fact that the country will face stagnant economic conditions due to unjust tax system.

The stagnant economic conditions of the country leads toward high inflation rate in the country. The tax system of a country is directly linked with the economic conditions and inflation rate of the country. When wealthy individuals do not fairly pay their taxes and only the disadvantaged segments of the society are taxed, the revenues generated by local businesses decrease, the exports reduce, foreign debt increases and inflation rate soars. Its one of the best examples is of Pakistan that is experiencing soaring inflation rate of 26.3 percent (SBP, Inflation Rate of Pakistan, August 2024). Thus, the country will face high inflation (when) if the wealthy individuals do not fairly pay their taxes.



The high inflation rate in the country gives rise to social stratification. The ~~society~~ of countries having unfair tax system becomes highly stratified because the rich becomes richer and the poor becomes poorer. When the wealthy do not <sup>fairly</sup> pay their taxes, they consolidate all the power and resources within their hands depriving the rest of the <sup>populace</sup> ~~public~~ of their fair share in resources of country. One of the <sup>most</sup> bitter examples of such highly stratified societies of the world is of Pakistani society where only 10 percent of the ~~whole~~ population earns \$34.3 billion annually whereas the 52 percent <sup>of</sup> population is living below poverty line (World Bank, Social Stratification of Pakistan, 2023). This clearly highlights that the country suffers from social stratification due to unfair tax system.

When wealthy individuals do not fairly pay their taxes, the social issues rapidly grow in such societies. The social organization is directly associated with tax system. The unjust tax system of countries, which spare the wealthy for their lawlessness and white collar crimes, provokes the underprivileged



to deviate from legal principles. This causes a surge in street crimes, robbery, burglary and many other crimes involving juveniles. For instance, in Pakistan due to unequal distribution of wealth there has been a drastic increase in social issues since July 2022. So, it has become evident that the country faces social issues due to unfair tax system.

However, justice in taxation can be ensured by taking effective remedial measures. The government needs to strengthen legislation for fair taxation. One of the primary reasons due to which wealthy individuals do not fairly pay their taxes is weak legislative framework. The only way to fairly <sup>impose</sup> taxes on the ruling elite is to strengthen the legislation for fair taxation. For instance, the United States Internal Revenue Service (IRS) has launched a significant initiative, fueled by Inflation Reduction Act of 2022, to restore fairness in tax compliance (The Guardian, Inflation Reduction Act, June 2022).

This shows that strengthening legislation for fair taxation can effectively reverse the



the consequences faced by country due to injustice in taxation.

Another measure that the country should take for ensuring justice in taxation is the improvement of its tax collection models.

When the loopholes persist in the tax collection models of country, it becomes convenient for wealthy or powerful people not to pay their taxes. In such cases, introducing efficient tax collection models seems to be the inevitable need of an hour. According to a report of

**Organization for Economic Cooperation and Development (OECD)**, the countries suffering from <sup>the</sup> consequences of unjust tax system should learn from the efforts of Morocco which has improved its tax system to a great extent. Morocco <sup>has</sup> received accolades for ~~its~~ improving its taxpayer services and introducing new technologies and data analytics ~~to~~ <sup>to</sup> tax collection models (**Tax**

**Collection Model of Morocco, 2023**). Thus, the country should improve tax collection models for ~~impro~~ ensuring justice in taxation.



In addition to improving tax collection models of the country, strengthening the role of institutions for countering money laundering is another measure that should be taken by the government for ensuring justice in taxation. It is the weakness of state institutions due to which injustice prevails in taxation. ~~So, it~~ These institutions should be strengthened against political (~~interventions~~<sup>\*</sup>) influence so that they can effectively play their responsibility in countering white collar crimes.

**For instance,** in Pakistan it is the weakness of state institutions due to which politicians have been successful in evading taxes despite PANAMA leaks or Dubai leaks (**Dawn, Weak State Institutions, May 2024**). So, it is crucial for a country to strengthen its state institutions for countering money-laundering in order to ensure justice in taxation.



Conclusively, justice in taxation is the bedrock of sustainable development. The countries, where wealthy individuals are not fairly taxed and only the disadvantaged segments of society are taxed, ~~then these countries will~~ suffer from social stratification and economic crises. But these consequences are not irreversible, in fact these countries can still uplift ~~their~~ economic conditions and improve their tax system by strengthening <sup>the</sup> legislation and prioritizing the interests of public over vested ~~sta~~ interests of the stakeholders of the country. Thus, justice in taxation can be ensured when the government realizes that public, ~~instead of the wealthy,~~ is the real stakeholder of a state.