

Promotion of tax culture in Pakistan: Perspective, Prospects and challenges

Outline :-

(1) Introduction

Tax plays a crucial role in socio, economic and political development of a country. But unfortunately, shambled state's machinery, lackadaisical policies and moral decay in society are hurdles in promotion of tax culture in Pakistan. However, public awareness, structural reforms with strong political will are must to take the Bull by the horns.

(2) A cursory glance on the current state of tax culture in Pakistan "Condition of taxation and its importance"

(3) Challenges in the promotion of tax culture in Pakistan

(a) Social mistrust in state organs. "Sub-standard social image of taxation departments"

(b) Variations in tax jurisdictions "FBR, SBB, PBA, KP revenue board, BRA"

- (c) Weak tax compliance among sectors
"Industries 70%, Agriculture 0.6%, Services 30%."
- (d) Tax corruption: an order of the day in Pakistan
"Maleeha Iodhi's facts on tax corruption"
- (e) Traditional taxation machinery "A horse cart in motor car era"

(4) Effects of weak tax culture on Pakistan's state of affairs

- (a) low tax collection increases state's dependency on foreign aids "A Stanford University research"
- (b) Debt servicing a burden for economy
"FBR raised 7.14 trillion, debt servicing in budget is 7.3 trillion for FY2023"
- (c) It proliferates economic disparity in social fabric
- (d) Non-tax culture steers to high inflation
"low direct tax collection results in high indirect taxes"
- (e) low tax collection culture undermines other development projects

(5) Strategies for the promotion of tax culture in Pakistan

- (a) Digitalization of taxation system
"Cl@ve an E-filing system of Spain"

(b) Tax reforms: Zero tolerance for any exploitation "FBR works on income tax ordinance 2001"

(c) Pakistan badly needs a comprehensive tax administration system "International tax competitiveness index ranking 2023"

(d) Expansion of tax net "Inclusion of non-moveable property and non-corporate sectors"

(e) Public awareness about the far-reaching impacts of tax liquidation

(f) State's role for a productive expenditure "Dr Ishrat Hussain guidelines during PIDE seminar"

(6) Conclusion

"We need to prioritise taxing the powerful. We also need to inculcate in the minds of our next generation that paying taxes is an essential part of a civilised and healthy society." These words of Hillary Clinton express the decisive role of tax culture for the development of any society. Woefully Pakistan remained unsuccessful in the promotion of tax culture throughly. There are multifaceted reasons for this, from governmental machinery's dysfunctionality to social hurdles. The lack of tax culture lefts cunning impacts on national fabric. Everyone bears the brunt from state to an individual. But there is always a way where there is a will. Reforms in system with a strong state's role could help Pakistan in the promotion of tax culture. Tax plays a crucial role in state's socio, economic and political development, but Pakistan seems wobbling with promotion of this culture. However, the way-out demands some practical and visionary steps.

Recurring economic down turns and deficits have got roots somewhere in the taxation system of Pakistan. The current taxation system needs allot of remedies to be cured. The people themselves are the cause and effect of this fiasco. Paying direct taxes seem as an unearthly activity in our society. However, all this ill-treatment returns back with deficits, Inflation and sky rocketed indirect taxes. The Promotion of tax culture is a pivotal ~~ob~~ element in the well being of every society.

Now, let us look at ~~to~~ some challenges Pakistan is facing in the promotion of tax culture.

firstly, the social mistrust in state organs is one of the biggest hurdle. people do not pay taxes because they think that their taxes are not coming them back in the shape of government's services. "People hesitate in paying, that whether their taxes will reach to the enchequer?"

or it will be diluted within the taxation department in the shape of corruption. This ~~is~~ lack of interest halt people for paying taxes. For sure transparency and public interest are crucial for any state organ.

Secondly, variations in tax jurisdictions are a big cause of people's apprehension. Different units working on different taxation policies make tax payers confused while paying taxes. Islamabad collects taxes according to FBR sales tax act 2001 with different tax margins than Sindh revenue board sales tax act 2011. These variations throughout the country's taxation system force tax payers ~~to~~ whether to pay through this puzzled system or to simply evade from tax.

Thirdly, weak tax compliance among different sectors also curb the net tax collection of the country. The tax collection from industries is poles apart from

the tax collected from agriculture. The 70 percent tax is collected from industries, 30 percent from services but agriculture contributes only 0.6 percent of taxes. This weak tax compliance lefts one of the biggest sector of Pakistan untouched ^{from} tax net.

Similarly, tax corruption has become an order of the day in Pakistan. Corruption between tax collectors and tax payers haults the tax flow from provinces to center. According to Maleeha Lodhi's book Pakistan beyond the crisis: "3 Million Rupees raised in taxes in Sindh never make it to the exchequer because of the corruption between tax collectors and influential tax payers". Surely this corruption results in some other crisis for the state.

Lastly, traditional taxation machinery is like a horse cart in motor car era. In Pakistan the taxation system still works from British era building with

manual taxation formalities. Every file needs a person to move from lower to upper hierarchy or vice versa. This wastes a lot of time of both the tax payer and collector. People actually need a reliable taxation mechanism for paying taxes.

After discussing the challenges, it is pertinent to have a glance at the effects of weak taxation culture on Pakistan's state of affairs.

At first, low tax collection increases state's dependency on foreign aids. When Pakistan fails to collect the targeted taxes, for sure she will have to find some other means to fill the deficits. A Stanford University research states that almost every country that reaches IMF for a structural adjustment program have grave taxation condition at the time. This low tax to GDP ratio in Pakistan compels her to depend on foreign aids from IMF or from any friendly country.

In addition to this weak tax culture puts a burden of debt servicing on Pakistan's economy. Every year Pakistan puts up a big piece of pie in debt servicing. For example FBR raised 7.14 trillion rupees in taxes in ^{Fiscal} year 2023 but in the same year government paid 7.3 trillion rupees in debt servicing. It makes a clear sense that when the taxes are insufficient to bear the expenses of the state then the state have to bear the burndts of low tax collections.

Furthermore, weak tax culture proliferates economic disparities in social fabric of Pakistan. Unequal tax collection makes middle and lower classes a direct affectees of the system. An elite become more wealthier by manipulation of taxation system but middle and lower classes are unable to evade the tax. Resultently this variation spreads economic disparity in society. People seem themselves trapped in the system.

In the same way non-tax culture steers to high inflation. Non-tax culture compels government to reduce subsidies and increase the other taxes. Non payment of direct taxes leads to higher indirect taxes. And when indirect taxes are increased unusually it attenuates social fabric and narrows the purchase power of people. And the inflation becomes the fate of people.

finally, low tax collection undermines other development projects. Like in the pursuit of making the other projects meet Pakistan unwillingly has to cut the development funds.

According to world bank a developing economy collects 15 percent GDP in taxes compared to 40 percent collected by an advance economy, the ability to collect taxes is central to country's capacity to finance social services. This shows that collected taxes

have a direct link with development of the country.

Before concluding the discussion, it is relevant as well as important to identify strategies for the promotion of tax culture in Pakistan.

Let, simply start with the digitalization of taxation system. The world is swiftly moving towards digitalization of government machineries. Digital system provides efficiency and reliability. ~~For~~ for example just look at Spain's Clave model launched in back 2014. The system accepts tax online and retrieves historical data to automatically populate certain fields in the current year's forms. This type of initiatives enhance filer's trust in system and provides inhand tax department.

Also, Pakistan's tax machinery need some tax reforms. The new tax reforms must ensure zero tolerance for any exploitation. While talking about

tax reforms we must consider the example of FBR income tax and sales tax ordinance 2001. The world economies are moving swiftly with modern adaptation in policies while FBR is still using a two decades old legislation. Modernity could not be brought without modern working procedures.

Along with this Pakistan badly needs a comprehensive tax administration system. The tax administration system of Pakistan is filled with many loop holes which causes many problems such as tax liquidation. Estonia topped the international tax competitiveness index 2023 consequently for the last ten years. According to the report Estonia has the ~~best~~ most comprehensive tax administration system in the world. This shows the importance of tax administration, which our system needs the most. Equally Pakistan has to expand its tax net

There are many sectors in Pakistan which are largely excluded from tax net or they pay a negligible part of tax. Pakistan has to expand its tax net in order to make just and equality among sectors. Like the agriculture pay a very low tax and non-moveable property taxes are also same. Non-corporate sector is also out of tax realm. Non-uniformity of taxes steers to tax evasion.

Moreover, Pakistan has to aware its public about the far reaching impacts of tax liquidation. Because it has to be clear that why are we paying taxes and what would be its repercussion if it will not be paid. Through media, social media, educational institutes we have to educate people about the importance of tax for our society. So that citizens shall be motivated to pay taxes.

Last but not least, Pakistan has to play a strong role in productive expenditure of taxes. As it is upto the state that where to spend taxes, so the fruits can be get in return. Dr Ishaq Hussain during a conference of PIDE states that "state's role is more crucial in tax expenditure than tax collection". which means that tax expenditure should be given the same importance as tax collection.

To make the long story short it can be concluded that although Pakistan is facing many problems in promotion of tax culture, but there is still some ways to overcome the hurdles. from society to state's ability to promote taxation system, there are many loopholes, which are ultimately curbing socio economic and political developments. By structural reforms and strong political will those can be resolved.