TAXING THE POOR : A SELF-DEFEATING APPROACH TO ECONOMIC GROWTH

A. Introduction

Thesis Statement: High taxes on low-income individuals leads to poor economic growth as it creates income inequality, restrains social mobility and hinders long-term economic development.

B. Overview of Current Tax Policies in Pakistan

(i) Taxes such as GST, FED, and Charges for water and sanitation.

C. Economic Impacts of Taxing the Poor

(i) Decreased demand for goods and services leading to slowdown of economy

Case Study: According to Pakistan Bureau of Statistics, lower income households spend most of their income on taxes.

(ii) Widened income gap between rich and poor

(iii) Reduced business growth

(iv) Lowered Productivity and Human Capital Development

D. Social Impacts of Taxing the Poor

(i) Increased poverty and deprivation

Case Study: According to the World Bank 21.9% of the population of Pakistan lives below the poverty line as of 2019.

(ii) Increased Crime Rates

(iii) Reduced educational opportunities

(iv) Reduced Social Mobility

E. Way Forwards

(i) Implement a tax system where high

earners pay a greater amount of taxes.

(ii) Reduce the sales tax of goods specifically consumed by the poor.

(iii) Introduce food subsidies and affordable healthcare

(iv) Increase government investment in social programs specifically targeting the poor.
Case Study: For example, the Benazir Income Support Program.

F. Conclusion

In the pursuit of economic development and fiscal stability, taxation policies play a pivotal role in balancing the economy of a country. However, when these policies target the poor specifically, the results can be counterproductive. Same is the case with Pakistan, the tax policies here have made the lives of the poor not only miserable but it is getting harder for them to make both ends meet with each passing day. Due to regressive taxation, the demand for goods and services has significantly decreased over the past few years thereby decreasing the production as well. This not only reduces the growth of business involved in the production of goods and services but also hinders long-term economic progress. Furthermore, the employee feels less motivated and finds it difficult to work as he knows that a significant portion of his income will be consumed by taxes. Not only does this pose economic impacts but it affects the society socially as well for example never ending poverty cycle, increased crime rates and little to no social mobility. Despite the above challenges, Pakistan can foster economic growth by adopting a more equitable approach to taxation. In a nutshell it can be said that high taxes on low income individuals leads to poor economic growth as it creates income inequality, restrains social mobility and hinders long-term economic development

The tax system of Pakistan is a mixture of direct and indirect taxes with an emphasis on the indirect taxes. Direct taxes mainly target the high income individuals. However, indirect taxes for example sales tax make up a substantial portion of the revenue of the government. These taxes are regressive affecting low-income individuals. For example, individuals have to pay tax on each and everything they buy which is refered as the General Sales Tax (GST). Furthermore, basic necessities such as water and sanitation also have taxes imposed on them. These current tax policies have been criticized for their inefficiency and pose great negative impacts economically as well as socially.

Increased taxation often leads to reduction in demand for goods and services. This is because a high portion of the income of the low earners is spent in taxes such as GST and the remaining is spent on necessities. As a result, these households are forced to cut-back on non-essential expenditures which negatively impacts the overall consumer demand. Reduced economic spending thereby reduces the retail sector growth as well. According to Pakistan Bureau of Statistics, lower income households spend most of their income on taxes. Hence, regressive taxation reduces the demand for goods and services.