

## Introduction

There are many issues in Pakistan's economy one of the major ~~issues~~ <sup>cause</sup> with Pakistan economy is budget deficit. which is faced by the last ten years continuously. The average budget deficit is 2.5 trillion PKR ~~since the last ten years~~. There are many reason which leads the budget deficit such as the flawed taxation system, undocumented or informal economy and many other factor that contribute their role in the budget deficit. But, these issues can be solved by the better ~~of~~ effective policy measures.

### Reason for the budget deficit.

#### 1- Flawed taxation System

Due to the flawed taxation system, the tax collection is less. In fiscal year 2021-2022 6.1 PKR collected.

Tax System plays crucial role in generating revenue for the government but in Pakistan their is the issue of flawed taxation system so, the tax collection is less, such as in the fiscal year ~~2021-22~~ 2021-22 is 6.1 billion PKR. 2022-23 the tax collection ~~was~~ 7.4 trillion PKR and the expenditure of federal government was 9.1 trillion PKR. After Apply the ~~the~~ NFC Award center left with 3 trillion PKR. After ~~adding~~ <sup>including</sup> the federal excise duty the total amount with center was 4.6

## Undocumented Economy leads Tax evasion.

trillion PKR. However, the total expenditure was 9.1 trillion PKR, the deficit was 1.5 trillion PKR.

### 2- Undocumented economy leads Tax evasion

Like the flawed taxation system, the flawed documentation of economy also leads the crisis. According to the IMF 35% of the economy is undocumented, such as the business units are partially documented, there are ~~evade~~ <sup>evade</sup> business unit but there are hidden don't show their business.

The informal ~~leads~~ economy leads tax evasion. one of the major tax evader is deal state business. second one is property dealer. The actual price of the plot is not shown by FBR, the other major area is the industry, where the tax evasion is the common phenomena. The number of the products are more and shown products are less. one of the major tax invader is tobacco industry. the actual number of cigarette packet is more than shown to the FBR. Because there is no effective criteria to identify the actual product. So, the ~~undocumented~~ <sup>undocumented</sup> of the economy and lack of ~~of~~ the effective criteria to identify the actual products leads the tax evasion.

Tax avoidance  
or evasion? Impact with FBR

### 3- Tax avoidance

Tax avoidance is the other common phenomenon. Many of the small business owners don't want to pay the taxes because they only run their small business and they also might have some business in overseas to pay taxes. However, the major example of this is used industry. ~~which~~ they do not pay taxes because they are small units. Some apply on the small scale sports industry. The other examples are the streeting industry, embroidery shops, and the private clinics, laboratories and maternity are not registered. However, they avoid to pay off taxes.

### 4- Unregistration issue with FBR

There are huge number of shops which are not registered to FBR such as clothes shops, shoes shops, Hosiery shops, and general stores. They do not pay taxes because they are not registered to FBR. ~~if they are~~. even they are registered they don't show their actual earnings, so, in this way they avoid their taxes.

### 5- Uneven or non-proportional distribution of taxes

There is also the issue of uneven or non-proportional distribution of taxes. Such as the sales tax is varied bit ~~to~~. The rate of taxes on sales class vary from 0% to 45% depending upon the sales size of the employer. And the major tax providers are banks and telecom sectors. They ~~also~~ have pay the annual sales tax as well as they also pay the income sales tax. ~~Therefore~~ In the same way the industry is also under burden, ~~because~~ that they pay annual income tax and also pay the 17% GST tax. Despite that the production cost is 30% higher than the index and Bangladesh. So this unequal distribution of taxes leads massive de-industrialization.

### 6- Issue of tax assumption

There is also the issue of tax exemption such as ~~the~~ the tax exemption is given by agriculture sector. The industry sector contributes about 23% of GDP of the country. And more than 35% of the overall taxes of Pakistan. on the other hand the agriculture sector contributes to GDP is 20% and its tax contribution is almost zero.

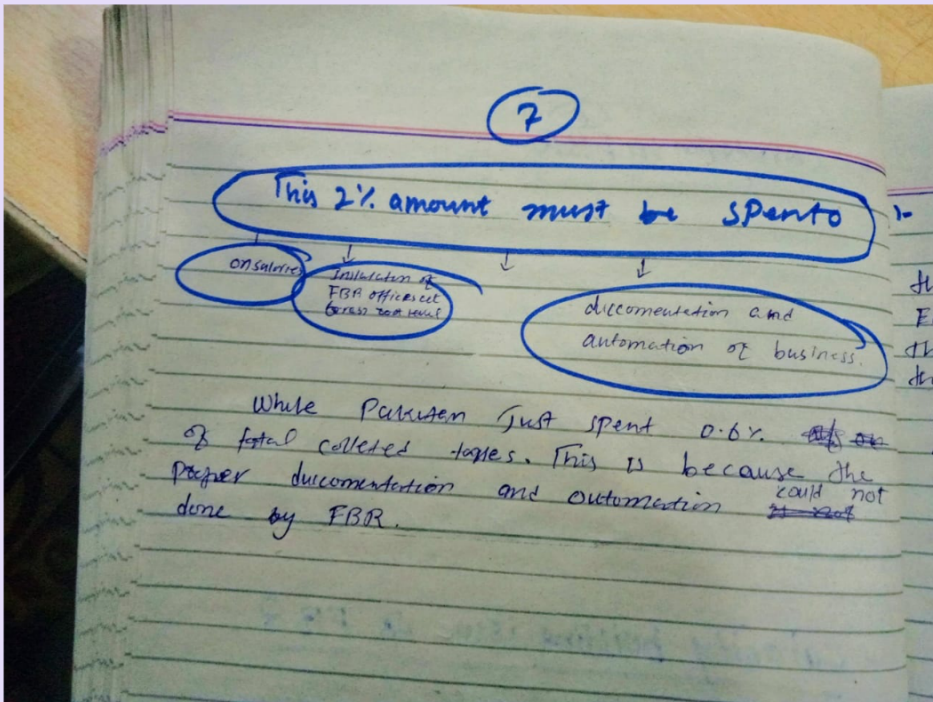
Corruption in FBR

Q- Corruption in FBR

Corruption is one of the major problems of every sector and this also holds by the tax sector. Since in the ~~tax~~ there is rampant corruption in FBR and ~~the~~ there is either tax collection departments. As the business are not properly documented or overstated and ~~formation~~ further more the services and other perks and privileges are ~~not~~ of tax authorities are less. This leads to increase in corruption, especially more than corruption, less than tax collection.

W- Capacity building issue of FBR

There is the capacity building issue of FBR because there is the issue of lack of proper investment of the state on the capacity building of FBR. As the state ~~are~~ spent on FBR is very less. In 1999 the FBR collected almost 300 billion PKR and so on in 2023, FBR collected 6.7 trillion PKR. But the state spent on FBR is very less. As per international standard set by the ~~World Bank~~ Imf, WB, ECR, APB at least 2% of the collected amount must be spent on the tax collecting bodies.



## ⑧ Issue of Debt servicing:

The issue of debt servicing is also the major contributor of the budget deficit. Every year the minimum 28% of the expenditure portion of budget is allocated for the debt loan repayment. In the fiscal year 2024-25, the federal government of Pakistan has to pay more than 20 billion USD to external sources, more than 45 billion PKR to internal sources, and more than 1.2 billion PKR to the TPPs under capacity payment. After applying NFC and giving the provincial share and payment of the both internal and external loan there is no money left with leader to spend for the other expenditure.

## ~~Issue of~~ Subsidies

### Annual Expenditure and debt Servicing.

Fiscal year	Total expenditure	Debt servicing
Fy 2021-22	8.4 Trillion PKR	2.4 <del>trillion</del> billion USD.
Fy 2020-21	7.7 trillion PKR	3 billion PKR
2019-20	7.2 Trillion PKR	2.9 billion PKR

⑨

## ⑨ Issue of Subsidies

Pakistan's economy of Pakistan has faced significant challenges. One of that challenge is the subsidy issue during managing the budget of federal government. As in last five ~~year~~ fiscal year the average size of subsidies was 1.5 trillion PKR, which is ~~large~~ <sup>huge</sup> amount.

### Overview of the Subsidies in budget

## 14. Issue of Pension

Pension as a crucial component of social security system are designed to provide financial support to the retired persons. In the federal budget 2022-23, pension was nearly 70.1 billion PKR and in the federal budget 2023-24, it is about 109 billion PKR. This is a major reason for the increase in public debt.

### Implications

#### (1) Increase in public debt

There is the issue of less tax collection and the expenditures are more. So, therefore the government acquire more and more loan to meet their expenses. Recently, the total volume of the loan on Pakistan jumped from 6 trillion PKR in 2008 to 53 trillion PKR in 2023. The one of the major reason is budget deficit.

Fy 2008-09 = volume of loan is 6 trillion PKR.

Fy 2012-13. = it reach 12 trillion PKR.

Fy 2017-18 = reaches 29 trillion PKR

Fy 2021-22 = it was 38 trillion PKR

(2)

Fy 2022-23 = it is about 54 trillion PKR

This chart represent the continuous increase in the loan.

#### (2) Lesser allocation for developmental projects.

Other implication of budget deficit is the lesser allocation for the developmental projects such as dams, roads, infrastructure, canals, and many other projects which are undermined due to the budget deficit problem.

#### Lesser allocation for educational funds.

#### (3) Lesser allocation for Social Welfare program

Such as the health sector, education and social and development (RCD) is compromised due to the budget deficit. The police which is one of major component in the internal security also compromised, due to the budget deficit problem.

1- Increase in tax collection

The Tax to GDP ratio in Pakistan has been 50% because of the improper documentation and automation in economy. If the economy is properly documented and automated, that will lead the increase in tax collection.

(a) Introduce track and trace system.

In the recent past, two major steps taken towards the documentation and automation. First of all track and trace introduced in the industries. This helps in size of tax collection from industries, but the issue is that it was not applied in every industry. Resultantly the visible increase in the tax collection could not occur.

(b) Introduce point of Sale System

Secondly introduce point of sale system in retailers and other big business. This also increase in the documentation and automation of economy. But the same issue is facing here it is restricted to major retailers and not extends to other businesses and shopkeeper at grassroots level.

2- Equitable distribution of taxes of all the sectors.

Equitable distribution of taxes among all sectors is essential to boost the tax collection. It is important that all kind of business such as agriculture, industry and shopkeeper of all kind must brought under the tax net. Pakistan has increase the tax base in order to increase the tax net more and more people must pay tax. There are 7 million car owners in Pakistan out of which 50% are not tax payer. So, the more the documentation and automation, the more the tax payer, lesser the corruption and more the tax collection.

3- Privatization of state owned enterprises.

There are 100 plus state owned enterprises they must be privatize. But the role of the state as a regulator. As business is the job of private individuals. Therefore state owned enterprises must be privatized. This leads decrease the burden on budget. Such as MCB was privatized in 90s by then it was paying taxes worth below 1 billion PKR, now it is paying by 100s on that time, but now it is 2000.

30 billion PKR also the number of employees was not reduced in the banks. Therefore, more the enterprises are being privatized, the more the chances of growth in the businesses. All the banks, telecom companies, distribution companies etc. privatized are performing way better than they used to be in the past.

Conclusion

The edge issue of budget deficit can be tackled by taking effective measures. Such as privatization reduces the financial burden. If all these measures such as deconcentration and automation of the economy is taken off effectively, this leads more tax collection, less corruption and revives the economy. Through the rapid industrialization, more the industries, more the taxes, more the jobs and this leads free the government of Pakistan from all financial burden.