

# Promotion of Tax Culture In Pakistan: Perspectives, Prospects And Challenges

## Outline:

### 1- Introduction

The promotion of tax culture in Pakistan holds significant prospects for the development of country and its citizens. These prospects can be achieved if the perspectives suggesting its promotion are completely implied and challenges in its way are effectively coped.

### 2- Effective taxation as a pivotal tool in managing a country's economic and social activities.

### 3- Perspectives for the promotion of tax culture in Pakistan.

a- By clearly defining the vision of tax policies and exercising strict adherence to it.

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b- By revising NFC awards to include strong provincial tax collection mechanisms.

c- Institutional reforms within the FBR is crucial for promotion of tax culture in Pakistan.

d- By digitalizing tax system to enhance transparency.

e- Addressing and curbing the issue of tax evasion in major industries like automobile and real estate.

f- By prioritizing direct and progressive taxation mechanisms.

#### 4- Challenges to the promotion of tax culture in Pakistan.

a- Over dependence on external assistance i.e. IMF and WB.

b- Lobbying against tax reforms by industrialists and influential interest groups.

c- ~~Trust deficit in the government among the public.~~ avoid such confusing statement

d- Structural issues within the institutions like under invoicing and insufficient documentation.

5- Prospects of promotion of tax culture in Pakistan.

a- It holds the potential to significantly contribute to economic prosperity.

b- It helps in decreasing the dependency on FDI's.

c- It helps in the provision of better public amenities i.e. education, health, employment etc.

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d- It helps in fostering national integration by bridging class differences.

6- Conclusion

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"Taxes are the lifeblood of government and no taxpayer should be permitted to escape the payment of his just share of the burden of contributing thereto." (Arthur Vanderbilt)

This quotation by an American Judge ~~shows~~ <sup>reflects</sup> the importance of taxation for the smooth and efficient working of the country. Pakistan faces significant hurdles in fostering a culture where tax compliance is perceived as a civic duty, rather than a burden. However, there are certain perspectives, if achieved, will develop positive prospects for the promotion of tax culture in Pakistan. These perspectives include clearly defining and exercising the vision of tax policies, developing provincial tax collection mechanisms, bringing institutional reforms in FBR, curbing tax evasion etc. Although, these perspectives face harsh challenges like lobbying of interest groups, overdependence on external assistance, trust deficit among people so on

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and so forth. But, <sup>how a country can see witness</sup> if these challenges are coped, Pakistan will ~~see~~ its positive prospects in the form of economic prosperity, decrease in debt servicing, provision of better public amenities and bridging the class difference gap resulting in national integration. Hence, the promotion of tax culture in Pakistan holds significant prospects for the development of Pakistan and its citizens, <sup>These prospects can be achieved</sup> if the perspectives suggesting its promotion are completely implied and challenges in its way are effectively coped.

Taxation is widely recognized as a pivotal tool in managing a country's economic and social policies. Effective taxation plays an important part in making a country developed as Scandinavian countries provide compelling examples of its effectiveness. Countries like Denmark, Norway and Sweden

have leveraged progressive taxation policies to foster robust social welfare programs, ensure income equality, and high standard of living for their citizens. Moreover, these countries prioritize transparency and accountability in tax administration, ensuring that funds collected are efficiently allocated back into public services and infrastructure development. This reinforces trust in the government and enhances overall social cohesion. So, for the promotion of tax culture in Pakistan, government have to revisit its policies along with bridging the trust gap among the people.

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One of the Major perspectives for the promotion of tax culture in Pakistan is that the government should clearly define the vision of tax policy and exercise strict adherence to it. Strict

adherence to the vision involves consistently applying tax laws without favoritism or arbitrary exemptions, ensuring accountability in revenue management, and investing in public awareness campaigns to educate citizens on the benefits of taxation. Such measures ultimately pave the way for the promotion of tax culture in Pakistan.

Promoting tax culture in Pakistan can be significantly fostered by revising the NFC awards to incorporate robust provincial tax collection mechanisms. This revision would empower provinces to enhance their fiscal capacities through effective taxation policies. This approach not only decentralizes fiscal responsibilities but also encourages provinces to develop sustainable revenues aligned with regional needs and priorities. Hence, strengthening provincial tax

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collection mechanism would increase the capacity of the provinces to handle their resources and would decrease the burden on the center for the allocation of resources among the provinces.

Moreover, institutional reforms within the Federal Board of Revenue (FBR) are imperative for advancing the tax culture in Pakistan. Enhancing the efficiency, transparency and accountability of FBR is essential to enhance tax culture. It can be possible by streamlining the bureaucratic processes, adopting advanced technology for tax administration and implementing strict measures to combat corruption and tax evasion. By transforming the FBR into a more responsive and capable institution, Pakistan can create an environment where taxation is seen as equitable, beneficial and integral

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to national development goals. Hence, the reforms in FBR are essential for the promotion of tax culture in Pakistan.

Furthermore, the promotion of tax culture in Pakistan can be achieved by digitalizing the tax system to enhance transparency. By embracing digital technologies, such as online filing systems, automated data analysis, online monitoring of tax revenues and expenditures, the government can streamline tax collection and minimize the opportunities of corruption. Finance minister, Muhammad Awarazeb in a recent meeting, highlights and emphasizes the importance of digitalization of taxation to enhance transparency. So, as the digitization has revolutionized the world, Pakistan should digitalize its tax system as well to promote tax culture in Pakistan.

Additionally, promoting a tax culture in Pakistan necessitates addressing tax evasion in key sectors such as automobile industry, real estate etc. These industries often underreport their income, under value their assets and illicit financial flows. So, curbing tax evasion in major industrial sectors require implementation of monitoring mechanisms, conducting regular audits, and imposing penalties for non-compliance. By ensuring tax collection and curbing evasion, Pakistan can enhance revenue collection, reduce fiscal deficits and a better economic growth.

In addition, for the promotion of tax culture in Pakistan, the government must have to prioritize direct and progressive taxation. FBR has

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an overreliance on indirect and withholding taxes which should be changed for better tax collection.

Direct taxation, which includes income tax and wealth tax, ensures that individuals and businesses pay tax based on their ability to pay, while the progressive tax ensures that the tax should increase with the increase of income or wealth. Progressive taxation will not only enhance revenue for Pakistan but <sup>will</sup> also address income inequality and promote social justice. So, by progressive and direct taxation, Pakistan can create better taxation and revenue generation opportunities along with creating a civic sense among the people.

Although, these perspectives if attained have the efficiency to promote

tax culture in Pakistan, but there are certain challenges in its way. Over-dependence on external assistance i.e. IMF and WB for loans is a big challenge for the promotion of tax culture in Pakistan as it hinders the development of a sustainable tax culture in Pakistan. Conditions attached to loans often prioritize short-term revenue goals over long-term reforms that foster compliance. This dependency diminishes domestic incentives for comprehensive tax reforms. So, Pakistan needs to balance external financial support with the development of independent and effective tax policies that ensure long-term fiscal sustainability.

Moreover, lobbying against tax reforms by industrialists and other strong interest groups is another major challenge to the promotion of tax culture in Pakistan. These groups often resist tax

reforms that could increase their taxes or reduce their exemptions. They create political pressure which in turn leads to loopholes in legislation that undermine the effectiveness of reforms aimed at enhancing revenue collection through taxes. So, Pakistan has to curb this evil of lobbying in order to maintain a healthy tax culture in Pakistan.

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Furthermore, there lies a chasm of trust deficit in the government among the people which pose a great challenge to the promotion of tax culture in Pakistan. This lack of trust arises from the perceptions of corruption, inefficiency, mismanagement in government institutions, which undermine confidence in how tax revenues are utilized. Citizens are

reluctant to pay taxes as they think their contribution might not be used for the social welfare of the public. So, building trust is necessary for fostering a culture of tax payment otherwise it hinders the promotion of tax culture in Pakistan.

Likewise, certain structural issues with in institutions like under-invoicing and insufficient documentation presents a significant challenge to promotion of tax culture in Pakistan. These practices deprives the government of much-needed revenue and distorts economic data, making it difficult to accurately assess tax bases and plan effective fiscal policies. These structural issues create loopholes for tax evasion and hinders audit mechanisms. Hence proving as a challenge for the promotion of tax culture in Pakistan.

If these challenges are rightly addressed and the perspectives are achieved Pakistan will have great prospects by the promotion of tax culture within the country. It holds the potential to significantly contribute to economic prosperity. A strong tax culture <sup>will</sup> ensures sustainable revenue generation for the government. It encourages transparency and accountability in governance, improving investor confidence and foster a conducive business environment which inturn leads to economic prosperity of the country.

With the promotion of tax culture in Pakistan, the dependency on IFTs like IMF and WB will decrease. By domestic revenue generation, Pakistan can shift towards self-sufficient economy, allowing the government



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to fund development projects and social programs autonomously. It will allow Pakistan to pay debts and to work for the development of its people without any foreign aid.

The promotion of tax culture in Pakistan helps in the provision of better public amenities i.e. education, health, employment and <sup>basic</sup> standards of life. The revenue generated by the effective tax collection is then utilized for the social welfare of the tax payers. If the government utilizes the attained taxes on the development of health, education infrastructure etc, it will create economic activity, employment opportunities and build a conducive environment for the citizens where they feel a sense of being owned by the state.

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Lastly, promotion of a strong tax culture can foster national integration by bridging the class divide. It creates a sense of shared responsibility. <sup>when</sup> Everyone contributes to the nation's well being, <sup>according</sup> to <sup>their</sup> income level, it builds a sense of collective ownership. So, the government has to ensure that the utilization of tax should be on the basis of requirements and needs in order to build the sense of national integration among the people.

In a nutshell, taxation is the backbone for the efficient working of a country. It is recognized as a pivotal tool in managing a country's economic and social policies. For Pakistan, promotion of tax culture is a necessity as it helps in the smooth working of

the country; certain perspectives including tax reforms in FBR, strong provincial tax mechanisms, curbing tax evasion etc can help in the promotion of tax culture in Pakistan. These provisions will face certain challenges including trust deficit, structural issues, lobbying against tax reforms etc which if coped by the government will lead to prospects for the economic development and national integration of Pakistan. Hence, the promotion of tax culture in Pakistan holds significant prospects for the development of Pakistan and its citizens. These prospects can be achieved if the perspectives suggesting its promotion are completely implied and challenges in its way are effectively coped.