

Essay: Tax Evasion in Pakistan

Outline

1. Introduction
2. Overview of the Tax Evasion in Pakistan
 - a). Defining Tax Evasion
 - b). History of Tax Evasion
3. Reasons of Tax Evasion in Pakistan
 - a). Inefficiency of the Tax system
 - b). Corruption and lack of Transparency
 - c). Political Influence
 - d). Informal Economy
4. Consequences of Tax Evasion in Pakistan
 - a). Budget Deficit
 - b). Undermining Public Trust in the Tax System
 - c). Sluggish Economic Growth
 - d). Inequality and Unfair burden
- 5). Solutions
 - a). Enforcement Mechanism
 - b). Simplifying Tax laws and Regulations
 - c). Professional Training and Incentives

Tax evasion, the non-compliance of individuals and business to escape taxation, is a major threat to Pakistan's economic stability and growth. Tax evasion refers to all unlawful acts to avoid taxation. However, in Pakistan's case, it has become a serious problem. While there are ~~many~~ several reasons of tax evasion in Pakistan, including inefficiency of the tax administration, corruption, political influence and informal economy. As a result, the consequences of tax evasion are far-reaching and severe, which includes the budget deficit, undermining public trust, sluggish economic growth and unfair tax burdens. Despite of the problematic consequences of tax evasion, implementation of policy reforms such as enforcement mechanism, simplifying tax laws and regulations, professional training and development, and penalties's punishment can significantly help to tackle the issue of tax evasion in Pakistan. In short, Tax evasion is major problem, which has halted the socio-economic growth of the country.

Tax evasion refers to all those unlawful activities which ~~are~~ ^{has been} adopted by the tax payers, in order to escape from the tax net. Every citizen of a country, is bound to pay taxes to meet

The expenditures, such as defence, public health law and justice, infrastructure etc. As Gabriel Kucman in his book "The missing wealth of nations" defines, "Tax evasion is the illegal practice of individuals and businesses to shelter their income and assets." Moreover, United Royal Commission on the Taxation of Profit and Income defines Tax evasion as, "All those activities which are responsible for a person to be paid to the tax authorities." Hence, tax evasion is not limited to few countries, but it is a universal phenomenon that is relative of region or continent.

Pakistan has a complex history of Tax tax evasion, which is deeply rooted in the countries economic and political landscape. ~~As~~ As Benjamin Franklin famously remarked, "in this world nothing is certain except death and taxes." The origin of taxes are as old as 3000 BC. Like taxation, tax evasion also has its roots deeply fixed in the history. For instance, the problem of tax was recorded at the time of ancient Egypt. However, Tax evasion in Pakistan has its own history. During colonial period, tax collection system in the subcontinent was often inequitable and inefficient. At the time of independence, in 1947, the lack of clear and effective tax policies had the tax evasion system in the country. In short, over the decades, the tax evasion problem has not been

There are several reasons of tax evasion in Pakistan. One of leading reason is the inefficiency of the tax administration. A skilled and professionally competent tax administration is essential for the enforcement of the tax laws. However, in case of Pakistan, there is lack of sufficient resources ~~with~~ available with the tax administration of Pakistan, creating an opportunity for tax evasion without any fear of detection.

As Dr. Asim Bashir Khan, a tax policy expert, highlights, "A weak administration leads to significant revenue loss and undermines public trust in the tax system. However, according to the ~~tax~~ Economic Survey of Pakistan, the tax-to-GDP ratio has remained below 10 percent for the last many years. It is mainly due to the ineffectiveness of the ~~effort~~ tax administration. Hence, experienced and highly trained tax administration is vital for the reinforcement of tax laws.

~~Like~~ Likewise, corruption and lack of transparency is another reason of tax evasion in Pakistan. When the tax system becomes biased and corrupt, trust on the government institutions erodes, incentivizing the tax evasion. ~~Corruption~~ However, corruption refers to the illegal use of public offices gains in such a way that violate the rules and regulations of the country. According to the

Transparency International, Pakistan ranked 140th out of 180 countries in the Corruption perception Index. This lack of transparency and accountability leads to inconsistent tax enforcement, and opens the door for tax evasion in Pakistan bribery and many other different techniques. In short, Tax evasion has widened due to corruption and lack of transparency.

Similarly, political influence within the tax system, is also a major factor contributing to tax evasion in Pakistan. Powerful political figures use their influence to protect individual and businesses from the tax net, leading toward a culture of evasion. In case of Pakistan, political leaders are supposed to regulate laws, and to help public, but they diligently interfere in the matters relating to taxes. ~~They~~ For instance, they influence the tax machinery and help individuals to escape from the tax net. Therefore, tax exemption and concession create disparities in the tax system by leading to non-compliance and tax evasion.

Moreover, Informal economy has also fueled tax evasion in Pakistan. Informal economy refers to the underdocumented or cash based economy where all transactions are uncovered. In such a cash based economy it is difficult

for the tax authorities to trace individuals who have made commercial transactions. However, a very large portion of economic activities in Pakistan occurs in the informal sector, where transactions are often conducted in cash. Small vendors, wedding gifts, unavailability of tax system in villages and charitable donations are glaring examples of informal economies in case of Pakistan. As stated by the Pak Economic Survey 2022-2023, Pakistan's tax evasion was around Rs. 5.8 trillion on annual basis for the fiscal year 2022-23, which makes 6.9% of the GDP. In conclusion, informal economy is a major system to avoid taxes.

While the consequences of tax evasion in Pakistan are far-reaching and severe. The main consequence of tax evasion is the Budget deficit. The budget deficit may occur when a country becomes unable to collect sufficient taxes. As a result, government loses a big portion of its revenue, when individual and businesses evade taxes. This reduction in revenue leads to a budget deficit where government revenue exceeds its income. ~~It is~~ As Muhammad Ali Kamal in his report, 'A Fresh Assessment of the tax evasion in Pakistan' highlights, "Tax evasion leads to an increase in the

budget deficit, and in turn, forces the tax authorities to increase the tax rates further. Hence in absence of tax evasion in Pakistan, the budget balance of the country will be in surplus.

Moreover, diminishment of public trust in the tax system is another significant result of tax evasion in Pakistan. The discrimination of the tax ~~system~~ authorities between rich and poor undermines the public trust in the tax system. A general perception builds that the authorities are unable to collect taxes, eventually leading to tax evasion. When taxpayers see other evading taxes without consequences, they may feel discentivized to comply themselves. As a result, the legitimacy of the tax system erodes and by undermining public trust.

Furthermore, sluggish economic growth is another critical consequence of tax evasion in Pakistan. Tax evasion significantly impact the economic growth of a country. As Kamal in his article 'Cause and consequences of Tax Evasion' highlights, "When tax evasion increases in an economy, the economic growth decreases." It is because the government become unable to collect sufficient revenues to finance public goods such as education, health, roads and networks. Which eventually leads to lower economic growth. In short

Lastly, inequality and unfair burden ^{is} also a consequence of tax evasion in Pakistan.

Tax evasion significantly leads to economic inequality and places an unfair burden on the poor and middle class tax payers. Inequality in this case, ~~is~~ means the unequal tax burden on the poor as compared to the rich. For instance, the tax havens with around \$21-32 trillion in world financial assets sitting offshore, including Pakistan's \$200 billion plus, undermining developing countries' abilities to effectively raise tax revenues. This further complicates the tax burden on the poor and middle class, leading towards ~~income~~ economic inequality and unfair burdens on the masses.

Despite of the negative consequences of tax evasion in Pakistan, effective policies can significantly help to tackle the problem of evasion. One of the significant solutions to tackle the problem of evasion is the robust enforcement mechanism. ~~The~~ Enforcement mechanism refers to the strengthening of the tax authorities and technologies responsible for the collection of taxes. For instance, Federal Board of Revenue, the only tax institution of Pakistan, responsible to look after the tax laws and regulations. However, there is ~~some~~ ^a clear non-compliance system existing in the institution itself.

Therefore, implementing strict enforcement mechanism can boost the revenues of State.

Secondly, simplification of tax laws and regulation also help to curb the menace of tax evasion in Pakistan. Complex and difficult tax codes often discourage compliance and make it easier for individual and businesses to evade taxes. ~~By~~ Simplifying tax laws, ~~make~~ make the common man to understand to tax laws easily. It also encourages voluntary compliance by making it easier for the tax payers to understand their obligations. Additionally, a simplified tax system can also help to reduce corruption within the tax system by limiting powers and opportunities of the tax authorities to manipulate tax laws. In short, ~~for~~ simplification of tax laws can act as an obstacle in the way of evaders.

Thirdly, Professional training and ~~the~~ ^{incentives} ~~incentives~~ is another solution to fight tax evaders in Pakistan. Equipping tax officials with comprehensive training programs enhances their skills in modern tax collection techniques. This helps to identify tax evasion cases efficiently. Additionally offering incentives, such as performance rewards can motivate tax officials ^{and} to perform their duties.

diligently and ethically. Such measures not only improve the effectiveness of the tax administration but also build trust between taxpayers and the government. Hence, professional training and incentives to the tax officials can significantly help to raise the tax collection.

Finally, penalties also prove to be beneficial for proper tax collection and evasion by the taxpayers in Pakistan. Penalties refers to the charges which will be imposed on a tax payer in case of non-compliance. All around the world, strict penalties are imposed in case people evade tax. ~~Some~~ However, in case of Pakistan, ~~the~~ ^{several} laws have imposed penalties, but the ~~tax~~ tax authorities are unable to enforce all such tax penalties. As the sales Tax Act of 1990 clearly states, "Any individual who attempt to alter their tax records or evade tax is liable for a prison sentence up to five years. Moreover, according to section 82, any individual who is involved in tax fraud or tax scam is liable to pay a minimum of 1000 rupees up to 200 percent of tax he intended to evade. These laws clearly indicate the state instance to put strict penalties in case of evasion. Hence, tax evasion is, a major challenge, which can be tackled by Penalties

In a nutshell, it can be concluded that tax evasion is a menace that is halted the socio-economic progress of the country. Tax evasion means the non-compliance by the tax payers. However, it has adopted the shape of a quagmire for Pakistan. Tax evasion in Pakistan has its own history. Since independence, this menace has deeply rooted in the country's tax system. While there are several factors leading to tax evasion in Pakistan, including inefficiency of the tax administration, corruption and political influence. Similarly, the results of tax evasion are also far-reaching and severe, including, budget deficit, sluggish economic growth and unfair tax burdens. Despite of all these severe repercussions, effective policies such as enforcement mechanism, simple tax laws and penalties can significantly act as an efficient tool against the menace of tax evasion in Pakistan. In short, tax evasion is a serious problem which has surrounded Pakistan's economic prosperity and growth.