

Promotion of tax Culture in Pakistan: Perspective, Prospects and Challenges.

Outline

1. Introduction:

In Pakistan, promotion of tax culture has been a lingering issue since its inception. It is a sine qua non to move the country away from the clutches of economic instability. Introducing a comprehensive and simplified tax system, leveraging technology and inclusive participation of all the stakeholders can aid to increase tax-revenue of the debt-ridden country.

2. Tax Culture in Pakistan: defined and elaborated

3. A glimpse at various perspectives on tax culture in Pakistan

(a) Considering tax as a burden

(b) Inequitable system to benefit the elites

(c) Tax-revenue and accomplishment of vested political interests

(d) Insecurity about responsible institutions

4. A glance at plight of the countries without an efficient tax culture

The countries without an efficient tax culture have been in deep economic turmoil featuring high fiscal deficit, elevated inflation, rising unemployment and

unsustainable debt in recent years.

5. Conspicuous stumbling blocks in promotion of tax culture

- (a) Lack implementation of ^{tax} laws
- (b) Escalation of domestic political tensions
- (c) Low Compliance Cost of informal economy
- (d) Lack of transparent institutional framework
- (e) Antiquated and complex tax system.

6. Prospects of promotion of tax culture in Pakistan

- (a) Digitalization of tax system
- (b) Simplifying the registration process
- (c) Punishments to the tax evaders

7. Recommendations for a bright future with enhanced tax culture in Pakistan

- (a) Balancing the tax rates with public services
- (b) Trusted and efficient leadership to promote tax culture
- (c) Cultural changes can aid growth of tax system
- (d) Lowering the compliance cost of formal economy
- (e) Ensuring transparency in system by leveraging technology

8. Conclusion

"Taxes, after all, are the dues that we pay for the privileges of membership in an organized society."

(Franklin D. Roosevelt)

If a country lacks an efficient tax culture, it emerges as a cash-strapped state on the world map. In Pakistan, promotion of tax culture has been a lingering issue since its inception. Promotion of tax culture is a sine qua non to move a nation away from the clutches of economic instability. Tax culture is the collection of various tax laws, institutional framework and tax activities in a country. In Pakistan, various perspectives on tax system are found. Some people regard it as a burden and inequitable system. People lack trust in taxation authorities due to the rising corruption index and believe that tax-revenue is spent to fulfill many political agendas rather than for social services. However, the plight of the countries that lack an effective taxation system clearly manifest the importance of tax growth for sustainable and prosperous future. In Pakistan the growth of tax culture is halted

due to political unrest, flexibility in implementation of laws and ease provided by informal economy. Similarly, a complex tax system and corruption are also the main hurdles in tax progress. However, the various steps taken by government, such as digitalisation of tax system and punishing the tax evaders, seem a silver lining in the current scenario. Thus, pertinent measures must be taken by the Government to promote tax culture in the country. Because promotion of taxation will not only ensure a stable economy but also improved societal conditions. A society with well-developed tax culture experiences the economic growth and benefits all citizens.

Tax culture involves the various existing tax activities and tax principles of a specific country. In Pakistan tax culture, the taxes are categorized as direct taxes and indirect taxes. Direct taxes are levied on income. However, indirect taxes are levied on goods and services. The Federal Board of Revenue (FBR) is equipped with ^{authority of} tax imposition and collection in Pakistan. The Constitution of Pakistan has drawn a clear line of demarcation between federal and provincial taxes.

A glimpse at the various perspective on tax culture in Pakistan is crucial to understand the actual challenges which have been hindering the growth of tax system. Most of the people in our country deem taxes as a burden. The reason behind this misinterpretation is dearth of awareness. According to UNESCO, the literacy rate in Pakistan is 62.8%. It means more than 60 million people are illiterate and have no knowledge about the system and significance of taxes.

So, lack of knowledge gives birth to the misinterpretation of various ideas and systems. Hence, the people being unaware of the importance of taxes for development of a nation regard these as a burden.

In addition, the low-income class of the society does not support the existing tax culture due to its inequitable nature. According to their notion, the current taxation system only taxes the taxed and gives undue concessions to various powerful groups in our country. Their belief is further strengthened by various reports published by many national and international institutions. According to the UNDP's Pakistan National Human Development Report 2020, seven powerful

Sectors in our country enjoy deliberate economic and political concessions in tax payments. Thus, this identification of inequitable system of tax collection in Pakistan also hails public from supporting tax system.

Moreover, it is a common notion among the public that revenue generated through tax collection is misused by the politicians and various powerful groups. Instead of spending this money on public welfare and infrastructure development it is used in the accomplishment of vested interests of various sectors. According to survey report of FBR 2021, 20% of the people do not pay taxes because of their belief in misuse and exploitation of tax money. Thus, people are reluctant to pay taxes due to the fear of exploitation of tax money.

Furthermore, the insecurities of the public about taxing institutions are very common in the country. People are afraid of the corrupt authorities and as a result achieving growth in taxation system becomes difficult. FBR survey report 2021, indicates that 51% people are reluctant to pay taxes due to ongoing corruption in the governance system. Hence, the rising corruption

index enhances the mistrust between the taxpayers and various institutes.

However, the circumspect analysis of the plight of various countries that lack a systematic tax culture reveals some outrageous results. Such countries are in state of deep economic turmoil featuring elevated inflation, high unemployment rate, high fiscal deficit and a shrinking economy. Afghanistan is one of the examples. It is in the midst of the economic crisis and has poor state of financial health. Lack of well-organized tax culture has not only halted its economic growth but also created negative impacts on the social fabric of society. The rise of terrorism is inextricably linked to its poor economic growth.

Pakistan's lingering financial and economic crisis shows that there is less visible growth in tax network. Growth of tax system is halted due to various stumbling blocks. The laxity in implementation of the federal tax laws is the main challenge for the authorities. Such inefficient and unequal implementation of tax law adversely affects the economic growth in our country. It is clearly evident from

Tax Expenditure Report^{since} 2020 of FBR. that the "tax expenditure" which is loss of revenue due to lax implementation of federal and provincial laws and undue concessions to political elites, was 36.4% of the FBR tax collection and was equivalent to 3.4% of GDP in the fiscal year 2022. so, the lack of strictness in law implementation curtails the tax-revenue.

Besides laxity in implementation of laws, escalation of the domestic political tensions is considered another obstacle to enhance the number of taxpayers. Political instability in the country has curtailed the economic growth and revenue generation due to high level of uncertainty.

According to recent research on tax reforms, Democracy and stable political system are often considered positive factors in generating desired output through tax reforms. So, a coherent and stable political system is important to face the daunting economic challenges.

Furthermore, the informal economy also acts as an impediment to the creation of healthy tax culture in the country. Informal economy is actually untaxed and undocumented economic system. According to the report published by the

International Labour organization and Small and Medium enterprises. the value of Pakistan's informal economy is \$457 billion and it accommodates about 72.5% labour force. This tremendous volume of informal economy is due to its low compliance cost and provision of goods and services at low price. as compare to formal sector. Hence, its low compliance cost urges people to stay away from the tax payment system and hinders the tax culture growth. Thus, ease provided by informal economy restricts people to enter into the domain of tax culture.

Similarly, lack of transparent institutional framework for tax collection not only curtails the growth of taxation system but also affects the vision to broaden tax base negatively.

As corruption is deeply embedded in the various institutions, it result in the loss of revenue on the hand of corrupt authorities.

Owing to the Corruption, the people lack trust in institution because their resources are diverted towards personal well-being rather than public welfare. Hence, the daunting challenge of increasing corruption restricts the development and growth.

The antiquated and complex taxation system in the country is also a matter of serious concern. The tax system is not aligned with the strategic economic models of the various developed economies. Its complexity is another retarding factor because majority of the public cannot comprehend it. Hence, lack of a well thought-out taxation strategy leaves its footprints on the economy.

However, the Government has been working hard to heal the ailing economy of Pakistan by various structural reforms. Digitalization of revenue machinery by Federal Cabinet is a paradigm shift. This digitalisation Project anticipates strong outcome and seeks to enhance tax collection to Rs 31.72 trillion by FY27, a huge increase from Rs 7.16 trillion in FY24. The Government is focusing on provision of a solid infrastructure capable of handling massive volumes of data. Thus, implementation of this project with strong commitment will result in enhanced tax revenue in future.

Beside this, the registration process in formal taxation system has been simplified. Tajir Dost app has been launched by the

Government for quick and easy registration of traders. It is a vital step to broaden the tax base in the country. This simplified and easy methodology is anticipated to bring more people under the tax net.

In addition to this, the FBR's decision to punish the tax evaders also has potential to support growth of tax culture. A legally binding Income Tax General Order by the FBR to the mobile companies, seems a step of its campaign against evaders. In this order FBR has ordered mobile companies to disable the SIMs of 450,000 tax evaders. This vital step has potential to heighten the tax collection in the country.

Furthermore, various structural and policy reforms are necessary to enhance the number of taxpayers. Balancing the high tax rates with provision of improved public service can be advantageous in fostering the public participation. Government should adopt this strategy implemented in the Scandinavian countries. It should increase investment of tax revenue in human capital development. Provision of improved facilities and social security will motivate the public to

facilitate the healthy tax culture.

Trusted and efficient leadership is equally important to ensure a transparent and Comprehensive tax culture. Such leadership can not only encourage people to pay taxes but also save the nation standing at the brink of economic crisis. As illustrated by Sri Lanka's remarkable economic recovery under the tremendous leadership of President Ranil Wickremesinghe. Under his leadership, the country attained economic stabilization through various tax reforms. Hence, a tremendous leader is crucial for increasing the public involvement in taxation process.

likewise, changes in the cultural practises can also foster a healthy tax culture. In Pakistan certain beliefs and extremism are deep rooted. So, there is a dire need to promote acceptance of the divergent point of views. Hence, people's outlook towards taxes as a burden needs to change and significance of taxes as a mean of social security must develop. Such change in outlook is capable of producing some exceptional outcomes in the tax revenue.

In the same way, a healthy tax culture can be created by lowering the compliance cost of business under formal tax system. According to the report published by International Labour Organization and Small and medium enterprises, the value of informal economy has been increased upto \$457 billion which is equal to 40% of Country's GDP. It is evident from the report that growth of informal economy is the result of its low compliance cost to entrepreneurs as compare to formal economy. Hence, country can promote its tax culture by giving relief from the burden of regulatory compliance and easing rules for business conduct.

Finally, ensuring transparency in the system by leveraging the technology can revolutionize the tax system. Digitalisation of Federal Board of Revenue (FBR) will enhance transparency and efficiency in tax collection. Hence, this step can be a vital vehicle for the country towards a comprehensive and effective tax culture.

To conclude, promotion of tax culture is crucial to curtail the sufferings of inflation-stricken public. A well-thought tax culture is capable of promoting human development.

Different perspective on tax culture exist in our society due to lack of education and inequalities in the implementation of tax laws. Although several policy and structural reforms have been initiated by the stakeholder yet there is a long way to go. Absence of a healthy tax culture leads the nation towards economic turmoil. Several challenges to the promotion of tax culture needs to address. In this regard a committed leadership, transparent institutional framework and formalisation of shadow economy are essential tools for development. Undoubtedly reforms are difficult but doable as the experience of various countries has shown. Hence, through inclusive policy reforms and adopting cynic's way to manage tax revenue, Pakistan can accomplish its journey of tax reformation smoothly.