

## Essay.

Promotion of tax culture in Pakistan:  
Perspective, prospects and challenges.

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## Introduction:

The history of taxation is started in the case of ancient Egypt, pharaohs were the tax collectors at that time, they used to collect the tax to meet the needs of the government. The tax policy creates a connection between citizens towards the state. The tax also helps in the economy of the country as most of the states are governed by the funds of the taxes.

As Adam Smith in his famous book the wealth of Nations, he explains that, the tax collection should be 'subject of every state ought to contribute towards the support of the government'. In other words, it means that whether it is a rich or poor he must contribute on equitable basis. For example, if a person has 25,000 Rs. income and one has 100,000 Rs. income he may be exempted from some taxes like income tax. This is a principle tax higher income higher the tax ratio, low income, lower the

-tax ratios.

In Pakistan, which considered to be a third world country or a developing country, were the culture of tax is not promoted well. The poverty ratio of Pakistan is that more than 40% are live below the poverty line - world Bank - FY-24-26. Their financial capacity is not able to meet the tax ratios. However, the elite class of Pakistan which is entitled to pay the taxes are not paying the tax in a systematic manner.

According to federal Board of Revenue, there is a tax gap is identified which is of Rs-7 billion, which is not a less amount. Further, the top 1% of tax payers, which are around 700,000 wealthy individuals, are who contribute only Rs 1.7 billion in taxes, which is very low according to figures. FBR, said that individual have the potential to contribute over Rs 2-billion in taxes under of their income report.

The Pakistan should make tax policies which are progressive in nature. In other words, when income increases then tax should be increased. According to the famous author and minister Mr. William D. Guthrie says, tax should be progressive. The Equality of burden, by making every man according to his means a contributor to the expenses of the state. If the progressive or unequal taxes are permitted, which can be dangerous to repeat the history.

The following are

Some types of taxes:

Progressive tax, A tax that takes a larger percentage of income from high-income groups than from low-income groups. Tax will be collected from high-income persons. Pakistan's tax system is progressive, but it is not fully operates.

Regressive tax, It simply means that taxes are higher in rates which will be collected from the low-income groups.

Vertical equity, This concept means, people in different income groups should pay different rates of taxes or different percentages of their incomes as taxes.

\* "unequals should be taxed unequally"!

Indian Revenue Service)

Pakistan tax collection

mainly dependent upon, customs taxes, Sales taxes, Income taxes and federal Excise duty which almost constitute about 90% of Revenue collected by FBR.

However, the tax collecting institutions are need some reforms. The digitalisation

of tax institutes which can play an important role is find out who

is not paying the tax properly. Registration

of general store, small shops, malls, hotels etc., which can come under one

platform for to pay the taxes. The

ghosting system will be gone, if the

digitalization of tax payer are

done as soon as possible, this can

contribute to the prospects of taxation

System of Pakistan

As far as Tax payer's registration are concerned, which deals in sections 181 to 181D. These sections are related to "documentation of economy" and are aimed to bring the maximum number of tax payers on records. There are certain advantages from government to tax payer and certain disadvantages.

Following are consequences.

Advantages & Disadvantages.

Advantages

Disadvantages

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>Active tax payers are not barred from purchasing any property of valued over Rs 5 million</li> </ul> | <ul style="list-style-type: none"> <li>Cannot purchase.</li> </ul>                     |
| <ul style="list-style-type: none"> <li>Tax filers would have to pay only half with-holding</li> </ul>                                       | <ul style="list-style-type: none"> <li>pay full with-holding</li> </ul>                |
| <ul style="list-style-type: none"> <li>pay only 5.5% on import of raw material</li> </ul>   | <ul style="list-style-type: none"> <li>pay 8% tax on import of raw material</li> </ul> |
| <ul style="list-style-type: none"> <li>Taxpayers pay 10% tax on auctioning by</li> </ul>  | <ul style="list-style-type: none"> <li>pay 15% on the auction of goods of</li> </ul>   |

government &  
other Companies

15% paid tax by  
active tax payer.

of government or  
other Companies.

pay 20% on their  
dividends (company's  
- profit).

The above are some advantage & disadvantage. It is clear that registered persons are getting benefit & unregistered person getting double tax rates. However, this double should be tripled that they should have no option but to registered as a active tax payer. This will contribute in Pakistan tax economy and the gap can be less which was discussed above.

In Pakistan, there is long debate on direct and indirect taxes. The tax collection has increased by 18.4 percent in the current fiscal year as compared to the last year, according to the FBR yearbook. In closer, the most increase was in sales tax and customs duty while direct taxes increased by a meager 13.3%. This simply means,

ratio of indirect taxes i.e. Sales, excise, customs, have been increasing more rapidly which entails that taxes that are the same for poor and the rich have been seeing more growth than the direct income taxes that are determined by how much they earn. As pointed out earlier the purchasing power is the main issue.

For example, A packet of milk Rs 400 is same for poor as well as the rich i.e.

Why indirect tax rates are high.

The essential reasons for this that taxes even exist is to redistribute wealth from the rich to the poor in the form of services such as free healthcare, education and socio-economic rights are and should be guaranteed and protected by the constitution. It is a shame that the poor and rich both have to face same level of sales taxes while the incomes of taxpayers remains low as less than 2% of the population. The basic needs are subsidised or the income of the poor should be increased to certain to



achieve the purchasing power.

There are many issues and challenges in the tax system. The elite class is unwilling, even in its own enlightened self-interest, to contribute on the basis of capacity to bear the resource burden required to build a fairer society. by Shahid Karim, overhaul the system, Dawn.

The Major issues like non-availability of impersonal market relationships, lack of competitiveness, violation of rule of law, non-acceptance of the norms of fair play with more borrowing & more spending, all issues faced by the country.

The task of improving and reforming tax machinery, is mainly through donor's money, is still on the agenda of our policy makers. The IMF and other international institutions are pointing out to do the tax reforms which is as now important for Pakistan to do it for the bailout programs to reduce the risk of default.

In Pakistan, the rich are avoiding tax obligations but millions of mobile users having no income or incomes below taxable limits are being forced to pay advances income tax which is the violation of Article 4 of the Pakistan constitution of 1973, which assures that the state cannot force a person to do what the law does not require him to do.

The reforms & agenda which point out by the Pakistan Institute of Development Economics (PIDE) mentioned that, tax ~~forms~~ reforms agenda.

- i) • Heavy investment in IT to facilitate collectors
- ii) • Massive Surgery in the tax system through human resources development and use of computers, which would increase the efficiency and image of the department.
- iii) • Good officers would get compensation on the achievements of targets.

These policies are remains in papers and do not implemented and

Still the demand of tax reforms are more or less same. The reforms are need to be done for the betterment of Pakistan economy which play a part in long term.

The tackling the twin menaces of black money and tax evasion has always been a failure in Pakistan. A study conducted by the Ahmed Gulzar, Navaira Jundid and Adnan Haidar, show that corruption and tax evasion are not only causing an expansion in the size of informal economy but also hampering the growth rate, and adding more to economy in uncertain position, and income inequality and poverty.

According to Asian Development Bank, Pakistan is in 36.1, which comes in large undocumented economies deprive the state of revenue and can hinder the development of the country. Only 25 pc of the economy is taxed if the undocumented sector is taken into account. It means that tax gap in Pakistan is 75%. The tax-to-GDP ratio is much less than what

Claimed by FBR.

The Government almost need Rs 8 trillion of its expenses. The current tax system is complex system, only favours the few thousand officers and elites. The tax system that will work smoothly for Pakistan, is that all taxes should be merged into one - single tax with complete assurance to the masses that they would be free from any kind of harassments and money which collected to be spend in the welfare of the masses.

The tax system should be progressive in nature, which means income high tax higher, and income low then it can be exempted and taxed rate will be low.

Pakistan tax reform have been take ~~seriously~~ seriously by any government by they had failed to achieve the target. For example, Canada is a federation like Pakistan and a single revenue agency, CRA, administers tax laws for the Government of Canada and for most

provinces and territories, and administers various social and economic benefit and incentive programmes delivered through the tax system.

Pakistan should also collect all taxes through a single agency. We also need to administer programmes like Benazir Income Support Programme etc through NTA (National Tax Authority) as in the case in Canada and many other democracies of the world. Tax collection and social support disbursement should go hand in hand. - The NTA capable of generating sufficient resources both for federal and provincial government should be the top priority. This is replaced by current system of authority.

This will give prospects the rapid economic growth in Pakistan requires an analytical study of all the irritants prevailing in tax codes, procedures and implementation processes. The main irritant is high handedness, corruption and unprecedented high level of maladministration.

in tax apparatuses - both at federal and provincial levels. To promote taxation and business growth attracting domestic and foreign investment and ensuring much-needed jobs. Tax is a byproduct of growth. With more growth we would automatically have more taxes. The prevalent anti-growth taxes are the real cause of retarded economic growth, burgeoning fiscal deficit and insurmountable debt burden.

### Conclusion -

The tax reform are need to be address of the macro-economic stability and economic growth of Pakistan. Reforms are to be made according to the welfare of masses. The burden should not be too much for the masses. The elite class should be taxed properly, the tax gap should be addressed, the institution of tax should be reformed to. The Digitalization of tax is now need for the progressive and equal tax collection. unnecessary withholding

taxes on banking transactions must be removed. only a unified tariff code must be relevant rather than various SROs for tariffs on imports. withholding taxes on larger money withdrawals need to be less and saving certificates should be increased to agricultural payments.

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Approximately.