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Tax system in Pakistan: Perspectives, opportunities and challenges.

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1) Introduction

2) There are following perspectives regarding tax reforms in Pakistan:

2.1) Government views tax reforms essential for financial stability

2.2) Taxpayers consider reforms as a justice against unfair system

2.3) ~~Bussin~~ Business community sees tax reforms as a step toward growth friendly environment.

2.4) International organizations consider tax refors in Pakistan as way of global economic integration

2.5) Scholars believes that tax reforms in Pakistan must address structural weaknesses.

3) There are certain challenges to tax reform in Pakistan:

3.1) Political resistence is one of the major hurdle to tax reform

3.2) Informal economy is also crucial challenge.

3.3) low tax to GDP is a serious fiscal challenge to fund tax reforms.

3.4) Regressive tax culture impending tax reforms in Pakistan

3.5) Weak enforcement is a persistant obstacle to Pakistan's tax reform.

4) There are some opportunities to curtail challenges:

4.1) Digitalizing of economy offers opportunity to curb data breaches

4.2) Broadening tax net to strengthen taxation.

4.3) Reforming institutions ~~for~~ by decentralizing tax collection.

5) Conclusion

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In any country economy and governance are align together in a complex structure. To run effective governance system government needs sustainable economy. Economy provides financial system of taxation to finance government. In Pakistan tax reforms are long debate and to understand it, there are different perspectives revolving. It is important to understand governments perspective, taxpayers and business community. International organizations and academic perspective are also important perspectives to understand tax reforms in Pakistan. Apart from that country faces some serious challenges that are hindering tax reforms. These challenges includes political resistence, informal economy, and low tax to GDP ratio. Furthermore, it also includes regressive tax structure and weak enforcement. Despite all these challenges, there are opportunities that would help government in reforming taxation. Such as ~~B~~ digitalization economy that helps to curb data breaches, broadening tax net and reforming tax institutions. There are different perspectives that help to understand tax reforms in Pakistan, however, there are same challenges that can be curtailed through reforming opportunities.

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First, government views tax reforms as a essential component ensuring fiscal stability. Pakistan persistently faces budget deficit and to overcome it government borrow debt. Government believes that without reforming tax system it is difficult to create sustainable and self-relied economy. According to Finance ministry of Pakistan, during fiscal year of 2024-2025 government faced 6 trillion rupees of deficit, which is 5.7% of GDP. Therefore, government see tax reforms as a way to ensure fiscal stability in Pakistan.

Second, In Pakistan taxpayers consider tax reforms as a justice with their money. Taxpayers believe that existing taxation structure is unfair because government heavily rely on indirect tax system. Means government put heavy pressure on consumers that results in inflation. Citizens feel that existing structure favors ~~to~~ elite industrialists, landowners and businesses. According to the study of Georgia State University on determination of tax morale in Pakistan found that most of citizens ~~do not~~ reject to voluntary comply with existing tax structure due to transparency issue and complex tax filling system.

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Third, the business community of Pakistan sees tax reforms as a system that must be growth friendly. Businesses ~~in~~ consider current tax system uncertain, that do not encourage investment. Because every business investment comes with a mentality of long term growth and returns. Businesses believes that Pakistani tax structure is fragmented, means the business have to survive federal, provincial and local taxes, that increases cost and reduce competition. The World Bank report in 2022 on ease of doing business, highlighted that there are 40 different business taxes in Pakistan, burdening businesses. Through that perspective business community consider tax reforms keenly important.

Moreover, the international organizations consider tax reforms as one of the major tool for Pakistan's global economic integration. The existing system is a complex mechanism that is descouraging investment but also burdening ~~countries~~ country with debt. These problems are making hurdles for Pakistan to create economic leverage in global economic ecosystem. The International Monetary Fund report on Pakistan's borrowing during years 2018 to 2023, ~~sto~~ stated that only 9 to 10 percent population pay taxes. That shows that it is important to reform taxation system in Pakistan.

From academic perspective, scholars believes that tax reforms in Pakistan must address structural weaknesses rather than short term fixes. Academic researchers argue that most of the times, Pakistan only works on tax policies but not able to enforce them on ground. According to Pakistan Institute of development economics research highlights ~~to~~ that, through short term fixes government somehow manage to raise revenue but inconsistency of policy on long term basis sabotages the reforming setup and creates more complex structural weaknesses. In ~~a~~ the academics tax reforms are necessary but ~~must be~~ they must address structural weaknesses.

From government to academic perspectives, the idea of tax reforms is necessary, but there some challenges related to it.

First of all, political resistance is one of the major challenge to tax reforms in Pakistan. Pakistan's tax policy is heavily influenced by elite groups, like landowners, traders, real estate developers and industrialists. These elements are not only elite economic groups but part of Pakistan's polity. These groups often lobby against tax reforms or influence reforming policy to safegaurd their interests.

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For example, the report of Finance division Pakistan on agriculture stated that, agriculture sector nearly contributed in GDP around 22%. but tax collection is only 1 to 2%. Most of the agriculture land is owned by influential political groups that resists tax reforms.

Besides, informal economy is also a major hurdle ~~in tax~~ to tax reforms in Pakistan. Informal economy is basically a parallel or such economic activities that are undocumented or monitored by government. This shadow economy can be on macro and micro level, and due to it's untraceable nature it cannot be taxed. According to ~~Institute~~ Islamabad Policy Research institute's study highlighted that around 59% of GDP is informal and estimated around 450 to 500 billion dollars. Because of such large portion of economy operates outside formal economy, the tax net is narrow.

Furthermore, low tax to GDP ratio is one the serious fiscal challenge to tax reforms in Pakistan. Tax reforms often requires huge investments because it is not limited to policy framework but targeting administrative, training and modernization issues. When a government barely collects enough revenue to ~~p~~ repay loans and fund public salaries, the little space left to finance structural reforms. The report of

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The Economic Times, stated that around 46% of Pakistan's federal budget is allocated to debt and 10% goes to fund public salaries. Defense and ~~ot~~ necessary development projects are apart from that. In the scenario of low tax to GDP ratio, it is a serious challenge for government to reform tax system.

Moreover, regressive tax structure is a crucial factor impending tax reforms in Pakistan. A regressive tax structure is a economic term meaning that lower income group pay higher taxes than rich. This phenomenon is created due to indirect tax culture in Pakistan. Every government often relies on taxing, ~~pet~~ petroleum products, utility surcharges, electricity taxes and salary taxes to overcome ~~fisca~~ revenue deficit. Such moves deepen inequality and resultantly fuel public resentment. According to Oxfam policy brief on unfair taxation in Pakistan, the erosion of public trust, makes public to not support any ~~g~~ step of government to reform system, creating challenge to tax reforms in Pakistan.

Additionally, weak enforcement in Pakistan's tax system is one the persistent obstacle to tax reforms. ~~in Pakist Every~~ It is a universal governance ~~role that~~ norm that every policy

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without execution mechanism is a "plan without ~~executi~~ execution is merely a dream". The effectiveness of tax reforms depends on the ability of tax authorities to conduct transparent audit, detect evasions and ensure compliance. However, Pakistan's audit system is outdated and inconsistent in that scenario. The World Bank report on strengthening government revenues clearly states that many audit reports of Pakistan are superficial and do not uncover real points. Such thing fails the reforms in Pakistan.

Despite challenges, there are opportunities that would help Pakistan to overcome the issues.

Digitalizing of Pakistan's economy offer an opportunity to curb data breaches, helping tax reforms in Pakistan. Digitalization of economy does not limits on modernizing IRS system, it is a broader vision to curb cash base ~~eo~~ economy to and transfer to digital transaction system. This could only happen through incentivizing citizens to use digital payment methods and encouraging businesses as well. One of the prime example in that scenario ~~in~~ is India's UPI payment method. If businesses uses UPI over cash they get tax reliefs and on the other hand government got opportunity to document economy. ~~To~~

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Through same way Pakistan could use the method to ~~establish~~ initiate documented tax reforms.

In addition to that, broadening tax net is also a promising opportunity for Pakistan to strengthen tax system. Instead of increasing taxes on already taxed class, the goal would rely on increasing tax payers. This can be done through simplification of tax procedures. Pakistan already launched IRIS system for paying taxes, but system is still complex that without a professional assistance using IRIS portal is difficult. For example, Georgia simplified their digital tax system with the help of Banks and launched a user friendly IRIS application. Resultantly, Georgia's tax revenue increased to 25% from 12%. By broadening tax net through simplifying ~~tax~~ IRIS, Pakistan also ~~a~~ reform tax system.

Moreover, reforming tax institution by decentralizing tax collection system would be a opportunity for Pakistan to strengthen tax system. Pakistan mostly relies on central authority for all taxation work, from policy framing to collection. Due to which heavy investment is required for FBR not to only finance operation but manage human resources. Provincial authorities

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also exists but they also follow the framework of FBR. For example in the US, IRS department only monitor tax revenues and policy, on the other hand local governments are abide to collect property, business licensing and other taxes. This decentralized mechanism not only solve the issue of human resource but also strengthen tax collection from unreachable areas. By utilizing such opportunity Pakistan can strengthen tax system.

In a nutshell, taxation reforms in Pakistan can be understood through various perspectives including government, taxpayers and international organizations. On the other hand, the tax reforms also faces some challenges, in the shape of Political resistance, informal economy and regressive tax culture. Moreover, it also includes weak enforcement and low tax to GDP ratio. Despite these challenges Pakistan have opportunity to digitalize economy broadening tax net and reforming tax institutions to strengthen taxation in Pakistan. With different perspectives on tax reform and effecting challenges, Pakistan can initiate strong tax reforms through utilizing different opportunities.