

Topic: Tax reforms in Pakistan:

perspectives, opportunities and

Challenges:

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Introduction:

Tax policy creates a connection between citizens towards the state. As a citizens, they hold a duty towards the state and the state hold a duty towards their citizens. The tax also helps in the economy of the economy country as most states are governed by the funds of taxes. Moreover, in the state the tax should be imposed in progressive way rather than aggressive way. The tax should be progressive tax, proportional tax, and vertical equities. The state keep policy of tax in mind, while making a tax policy. One of the main tools of tax policy is to increase the level of savings and capital formation in the private sector partly for borrowing by government and partly for enhancing investment resources within the private sector for economic development and opportunities. Pakistan needs a paradigm shift in tax policy and revamping

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entire tax administration and establish a authority of National tax Authority (NTA), capable of generating sufficient resources both for the federal and provincial governments should be the top priority. However Major issues are like non-availability of impersonal market relationship, violation of rule of law and needless wasteful spending have been side tracked or underplayed, harpooning the mantra of achieving higher tax-to-GDP ratio as if it would solved all issues faces by the country. A part from this a large amount is not tax which is Black-economic, which is a issue. The informal economic should be tax to cover the economic of Pakistan. Thus, the tax reforms are need to progress the Pakistan economic. Need of remove of unnecessary taxes on transaction, to improve tax areas on agriculture and other areas. Only a unified tariff code must be relevant rather than various SPOs for traffic import and digitalization

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of tax.

The tax collection should be progressive which means that when income increases then tax should be increased. The famous Author and Minister Mr. William D. Guthrie says that 'Expediency or prejudice may hereafter prompt attempts of progressive taxes, or taxes or tax laws exempting those of moderate means. Thus, Pakistan's tax system is progressive when it come to income tax. If income is low then tax will be low or exempted.

The Proportional tax collection should be based on ^{different} income, not only income. A tax that takes the same percentage of income from all income groups. Tax will be collected as same from all income groups whether it high income or low-income groups. Hence, the proportional tax system should be based on different tax rates on different incomes groups. This is creation a tax difference between the income groups.

There are two types of tax in which the tax system is running. One is direct tax and other is Indirect tax.

The direct tax is a type of tax in which the burden of payment does not shift to another person. The same person needs to pay the tax. For example income tax or property tax. The Indirect tax is a type of tax, in which the tax is collected by one person in the supply chain. Likewise whole seller to a general shopkeeper then it will be collected from an individual.

The indirect tax is transferable. In simple words, the indirect tax is can be paid by another person.

Pakistan's direct tax ratio is high, i.e. inflation ratio is high while indirect tax ratio is also high. Almost 80% indirect tax and 20% direct tax. Hence creating a huge gap in indirect & direct tax. Low income groups paying more indirect tax, while high incomes groups are paying both and in high

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Incomes groups these tax are not burden

All efforts in the name of tax reforms undertaken in Pakistan till today have miserably failed. Pakistan needs a paradigm shift in tax policy and revamping of entire tax administration i.e. establishment of National Tax Authority (NTA), capable of generation sufficient resources both for Federal and Provincial governments should be top priority. Taxpayers should be facilitated to deal with a single body rather than multiple agencies at national, provincial and local levels. That consumers should feel ease in tax paying. NTA can be discussed and finalized under Council of Common Interests as per article 153. Also launching of one window serve to ease the consumers. Example of NTA, Canada a federation like Pakistan and a single revenue agency, Canada Revenue Authority 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. Hence, through NTA tax collection can be improve.

Pakistan's economic managers have not only failed to achieve this goal, they are taxing capital gains arising out of immovable property and shares to destroy creation of capital and incentives for investment that can boost growth. Beside inefficiency, corruption and incompetence of FBR, inconsistent, illogical, burdensome, complicated and confiscatory tax policies have forced the business community to search for safer heaven abroad, depriving the country of invaluable capital. Hence the balance of payment should be reverse to improve tax-to-GDP ratio.

Bank deposits in Pakistan soared to a record of 25.6 trillion in June 2023. 98.9% of conventional banking

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and 98.7% of Islamic banking can be protected under deposit protection in case there is bank failure. The middle class and working class suffer more than the Elite class as even the household who acquire debt in the form of mortgages and auto-loans suffer. Thus, the purchasing power lowers and less revenue generated, the tax should be moderate so that every class can go for need based loans.

The rise of currency in circulation and deposit ratio is also often problematic for tax collection. Thus, deposits can be an indicator of a growing economy which can ensure greater tax collection. However, increased incomes shall only ensure greater tax collection if legal measures such as lowering of withholding taxes are provided which increase the documentation of economy for greater tax collection.

The cash in circulation in Pakistan has primarily increased to Rs 9.2 trillion in June²⁰²² which almost an amount

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equal to 11% of the GDP or 30% of the money supply. This explosive growth in cash in circulation is concerning as it supports the informal economy, corruption, inflation, hawala transactions and speculative industries like hoarding commodities. Thus, the FBR need to launched digitalization of economy to reduced these corruption.

One of the biggest issues right now is the lack of adequate taxation in agricultural tax. The power to impose taxes on agriculture, property and tenure remains with provinces. However, provinces are heavy rely on the federal money (NFC). Hence, provinces are not increasing the tax on agricultural sector which earns less than 0.2% of the tax revenues for the provincial government, Even though it accounts for 20% of the GDP and employs 45% of the work force.

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One of the most effective ways to tax the property shall be through financially empowered local-urban governments. The tax collection of property taxes is very low. For instance, Punjab collected only 10 billion or 0.1% of the tax revenue from property.

Protectionism and Exports, the government is increasing imposing tariffs on the imports. However, many of such imports are used as input material for exports and act as a tax on exports. Hence focus on discouraging imports using tariff rates is simplistic, as Pakistan, one of the countries in which even the inputs of exports require excessive amount of material which are imported.

The major challenges of taxation in Pakistan is the non-availability of impersonal market relationships, lack of competitiveness, violation of rule of law, non-acceptance of the norms of fair play coupled with reckless borrowing and heavy wasteful spending have been side tracked or

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underplayed, harpooning the mantra of receiving high tax-to-GDP ratio as if it would have solved all issues faced by the country. The real issue is the an outdated, inefficient and non-productive tax system is remains untreated or even unnoticed by the government. Hence, the task of improving and reforming incorrigible tax machinery, mainly through donors' money, is still on the agenda of our policy makers.

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

The tax reforms was initiated in Pakt in 2001, promising 'a big change' in FBR in the next 1 year, and announced massive reforms, which included, Heavy

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investment in IT to facilitate the collectors, massive surgery in the tax system through human resources development and use of computers, which would increase efficiency and image of the department, good officers would get compensation on the achievement of targets. However in name of tax reforms the FBR imposed more obligations on the citizens without protecting tax rights now the reforms were taken place.

Tackling the twin menaces of black money and tax evasion has always been a failure in Pakistan. The corruption and tax evasion are not only causing an expansion in the size of the informal economy but also hampering the growth rate, thereby adding more informal economy to economic uncertainty, income inequality and poverty. According to Asian Development Bank Pakistan is have the large un-documented economic deprive the state of revenue and can hinder the development.

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Moreover, according to secret strength of Pakistan's Economy, only 15% of the economy is taxed if the undocumented sector is taken into account. It means that tax gap in Pakistan is 75%, as per former finance minister Shaukat Tarin, Pakistan loses \$50 billion in tax evasion.

The federal government needs at least Rs. 8 trillion of revenue for meeting all developments and non-development expenditure along with retirement of expensive loans, for which determination of a fair tax base is imperative. The current complex system, only favours a few thousand officers and their staff along with people having money power and who can blatantly flout the law. All taxes should be merged into one single tax with complete assurance to the masses that they would be free from any kind of harassment; and money collected would be spent towards their welfare.

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The digitalization of FBR is a challenge also the government should first digitalize the FBR and test it as a prototype and successful testing it. It can further launch it in the wage to the FBR. Further the FBR should conduct the workshops for the understanding of digitalization of FBR and how it works. Moreover, the government both on federal and Provincial level to ensure maximum digitalization and digital connectivity to know how this can be used. The rural digital is also critical for FBR to do the taxation. Hence, the digital know^{ledge} and usage is important to implement the digital FBR.

The recommendations are to unnecessary withholding taxes on banking transactions must be removed, to decrease cash in circulation, excessive incentives in terms of low sales taxes on digital payments and a larger increase in literacy and income shall be essential,

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Only a unified tariff code must be relevant rather than various SROs for tariff imports, withholding taxes on large money withdrawals need to be less and saving tax certificates should be increased in agricultural payments and provinces to be providing better tax collection on agriculture and property be given encouragement in business.

In the end, the tax reforms are need in Pakistan to increase its formal economy and tax-to-GDP ratio.

This can only be ensure by less documentation and digitalization of FBR, and digital literacy to the citizens to pay the taxes. The tax policy should be equalizable so, the rich can give more tax and poor should be exempted. The informal economy should be tackled by increasing the tax and to hold them accountable. Moreover, also to formalize this informal economy by giving them initial benefit like to tax law on to formalization of economy. Government

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need to reduced complians specially on revenue departments to tackle the tax issue. The FBR to use its power to catch the tax invaders not to creates hurdles to the business community. The government also make public-private partnership to tackle the tax invasion system. Hence, the all can be done by introduction meaningful reforms.