

## QUESTION NO.1

How can Pakistan reform its tax system to increase revenue collection, reduce reliance on external borrowing, and create a more equitable economic environment?

## ANSWER

### INTRODUCTION

The taxation system of Pakistan has been facing downfall from quite a long time now. Pakistan being a country of around 25 million people must collect a ~~tax~~ huge amount of tax revenue but it is still a dream for Pakistan. According to the latest report of FBR around 5 million among 25 are the active tax payers in Pakistan. The flawed taxation system of Pakistan can never help Pakistan to free from the debt and fiscal deficit which is increasing by every passing year. Reforms in the taxation system, administration of tax revenue and in the tax policies are required, which will help in the improvement of economy, ~~and~~ reduce the reliance on external borrowing and help in making a sustainable economy in Pakistan.

## FRAUD TAXATION SYSTEM

### ① Administrative Problems:

- ↳ Non-documentation
- ↳ Lack of automation.
- ↳ Spending on ABR is negligibly less.

### ① Economy not documented properly:

- ↳ According to IMF more than 35% of the economy is still not documented.
- ↳ Majority businesses are either partially documented or not documented at all.

### KEY PROBLEMS

### ③ Tax Avoidance by small businesses such as:

- ① Unregistered small businesses
- ② Metropolitan
- ③ Middle and lower class education sectors
- ④ Private Clinics
- ⑤ Laboratory.

### ② Tax Evasion by big enterprises

The businesses which cannot be hidden by the government are partially registered. Major Tax evasion is done by real estate businesses. The total property tax of Mumbai is more than total tax collection in Pakistan. Not only real estate but builders, retailers, industries also show less than the amount earned from the businesses.

## TAX REFORMS REQUIRED IN PAKISTAN

The taxation system in Pakistan is in dire need of reforms to solve the major problems like tax avoidance and tax evasion. Some of the urgent reforms required are mentioned below:

### (A) Documentation of businesses in a proper way:

Several businesses which are being run in Pakistan are either partially registered or not registered at all. According to IMF, more than 35% of the economy of Pakistan is not documented. This highlights the fact that evasion and tax avoidance is at its peak, which needs to be addressed.

### (B) More the investment in FBR, more the output:

The budget allocated to FBR Pakistan is negligibly less and the tasks they have to handle are ~~so~~ highly sensitive, which demands more resources and more pays. The IMF standard investment in FBR is minimum 2%, and allocated by Pakistan's budget to FBR is 0.06%, highlighted in FBR report. Such minimal pays result in lack of resources and increased chance of corruption due to which no outcome is seen.

### © Mitigate political inclusion in Taxation departments:

Tax collection departments must not be influenced by political parties and activists in any way possible. Separating the tax department and keeping it out of the political sphere will help carry out the activities in a non-biased way and help the work to be held in the favour of the country only instead of political gains.

### ④ Systems should be more technology oriented and less human oriented:

In this modern era where every work is given in the hands of technology, the taxation departments must also focus on advancement. In recent times track and trace system was installed in industries which helped FBR read the barcodes of the industries, which helped in ~~some~~ increasing the tax base. However they were partially installed and were not installed in all industries due to which not much was gained. Therefore, it is important to follow the same in all industries and also install point of sale system at every retailer shop.

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### ⑤ Increase Public Awareness:

Public must be aware about the problems of tax evasion and avoidance and educate them through different media platforms about the demand of receipt with FBR logo at every shop, hotel and restaurant. The logo must also be cross checked at FBR website.

### CRITICAL ANALYSIS

Pakistan has been facing the issue of tax collecting and relying more on external borrowing which has tangled it into a debt trap.

Recently, government of Pakistan has taken measures such as broadening the tax base, automating tax systems and offering tax incentives. Tax Assaan mobile application is introduced which allows the taxpayers to file returns electronically, it has helped simplify the process and chances of corruption are also reduced. Additionally, in the recent year of 2024 FBR has surpassed its tax collection targets, indicating progress in revenue generation. Implementing these policies for a long term can help fight against these problems and free the country from debt trap.

## CONCLUSION

In a nutshell, Pakistan is currently tangled with problems, one of them being the inadequate tax collection. The problems can be addressed by implementation of long term policies and tax system reforms. The government of Pakistan is already looking into the matter which has already helped improve the tax system and will improve much more in the near future. The process is difficult but not impossible and as it said, "Where there is a will there is a way." Therefore, the adopted policies can help fight against the problem.

