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## Question No: 01

### Introduction:

Pakistan's tax system is facing hard challenges in order to expand tax base, improve tax administration and enhance transparency.

It needs a strategic approach to increase the tax collection,

reduce reliance on external borrowings and create a fair economic environment.

Reforms in tax system can be

made by broadening the tax base, improving the administration

simplifying tax laws, enhancing transparency, introducing progressive taxation and encouraging compliance.

These reforms may prove a way

for creating a more equitable economic environment.

**Reforms for tax system**  
to increase Revenue collection,  
reduce reliance on external  
borrowing and create an  
equitable economic environment

**Enhancing transparency and  
trust in tax collection:**

Tax collection and  
usage of tax both mechanisms  
have many loop holes that leads  
towards lack of trust in how  
tax revenues are used. To combat  
this challenge regular reports on the  
tax usage should be published, it  
will also strengthen the anti-corruption  
measures.

**Broadening the tax base:**

Pakistan's tax to  
GDP ratio is around 10-11%, far  
below the average of 15% for  
emerging economies. Narrow tax base

with many sectors underreported or exempt. Expanding the tax base to include agriculture and retail could significantly boost the tax revenue. Tax evasion should be targeted through digital monitoring.

### Improvement in tax administration:

Administrational reforms are necessary for inefficiencies and corruption in tax collection agencies.

Pakistan loses an estimated \$10 Billion annually to tax evasion. It enhanced monitoring and enforcement mechanisms can recover significant amounts.

### Introducing progressive taxation:

Progressive taxation is high reliance on indirect taxes which disproportionately affect the poor. Over 60% of tax revenue comes from indirect taxes, burdening low income groups. This needs to be shifted on direct taxes for



addressing inequality. Progressive taxation means increasing tax on high income groups and reducing the dependence on regressive taxes like C<sub>1</sub>ST.

## Simplifying Tax laws:

Tax laws should be simple and easily followed by tax payers because complex tax constraints discourage compliance. Countries like Estonia and India have used digital platforms to simplify tax filing, increasing compliance and reducing evasion. There should be consolidated overlapping laws and a simple filing procedure for small and medium enterprises (SMEs).

## Encouraging Compliance:

In Pakistan, there are low tax compliance rates. Less than 1% of the population files income tax returns. There should be incentives for taxpayers attraction like lower rates for

early filers. Penalize the non-compliance through fines and audits. Digital tools and public awareness campaigns can help in improving this.

## Critical Analysis:

Pakistan's tax system is engrained with both type of taxes direct and indirect. The number of taxpayer is hardly 1% in the over all capacity, other exempted the tax or make evasions.

Pakistan is imposing indirect or regressive taxes to reduce the tax evasion and boost tax revenues. Pakistan needs serious reforms for the betterment of self-reliance and equitable economic environment. The above

mentioned reforms can only be taken into force if the administration work with transparency and morality. Federal Board of Revenue (FBR) is the concerned department for tax collection and usage.

## Conclusion:

To sum up all, Pakistan's tax system needs to implement the reforms such as progressive taxation, enhancement of compliances, expansion in tax base with transparency and trust. By implementing these reforms, Pakistan can create a self-sustaining economy, reduce fiscal deficits and alleviate the financial pressure of external borrowings. Such changes will not only enhance economic resilience but also ensure a more just and inclusive society.