

Question # 1Pakistan's System of Taxation:

A flawed system:

Pakistan's taxation system comes under ministry of finance and it is operationalized through Federal Board of Revenue, which is further divided into customs and Inland Revenue Services wing. Customs collects ports and duties whether its air or sea. whereas IRS has collection of income tax, federal excise duties, and sales tax. Pakistan collection of taxes play a vital role in an economy as it generates revenue for the country's spending. However, Pakistan's tax system is flawed with multiple factors such as old and complex procedures, culture of indirect taxes rather than direct taxes, undocumented economy, and weak institution and so on. This weak tax system leads to dependency over foreign borrowing as the country faces continuous budget deficit which means that there are more expenses at government's proposed budget than the available revenue. and balance of crisis which means the country has more dollar outflow than inflow in the current account. This scenario compels government to go for foreign borrowings and ultimately an equitable economic environment can

not be formed.

Reliance on External Borrowing

Pakistan in order to meet its budget deficit and balance of payment crisis relies on external borrowing which can be shown through Pakistan's 25th IMF loan program which has been approved on December, 2024. Under which IMF will provide \$ 7 billion dollar to Pakistan.

Need to Reform Tax System:

Pakistan, in order to get rid of this vicious circle of debt, Pakistan needs to reform its tax system to have indigenous revenue to manage budget spending and current account. The Kallip reforms can be availed to transform tax system.

- Tax Base Increment Instead of Tax Rates

Pakistan always has a trend to increase its tax rates to meet the revenue targets rather than increasing

tax net/base. As in increasing tax rates, those who are always paying taxes to the government treasury get further exploited. So there is a need to increase tax net rather than tax rate as more taxpayers will generate more tax without pressuring or burdening a single sector or salaried individuals.

2. Documentation of Informal Economy:

A research conducted by International Labour Organisation (ILO) and SMEDA reveals that Pakistan has an informal economy equals to \$457 billion as compare to a \$340 billion formal economy in 2022. This study showed that there is larger sector of informal economy which is not under tax net due to undocumented economy. There is a pressing need to document all these informal business practices and get them under tax net so that the economy can survive without foreign borrowings.

3. Single Point Tax Market:

According to the World Bank recommendation there must be a system of single point tax market. There tax payers can easily pay their taxes.

without paying to multiple origins or points of sale, i.e. In Pakistan sales tax service tax is deposited into provincial departments and manufacturing taxes to Federal government. Though single point tax system the taxpayers will be facilitated as well encouraged to pay tax.

4- IMF: Proposed Reforms in tax system

Pakistan must avail reforms which are proposed by IMF such as: no amnesty proposals, no exemption and special rates to any sector or type of taxpayers as it leverage taxpayers to pay less than the due tax amount which curtail tax collection. The same need to be stopped.

5- Connect with other Departments.

There is a pressing need to connect Pakistan's taxation system with other related departments such as: Nadra, Banks, Pakistan's Stock Exchange Commission. So that the tax officers can have real time information regarding tax payers which will facilitate them to conduct better audit and tax

Practices! Although there is a section/mechanism under Law which empowers tax officers to call for information e.g. under section 176 of Income tax Ordinance, 2001, an officer can call for information from any public, private, and an individual for tax. Some is very time consuming as it involves letter system.

6- Digitization of Tax Records:

The tax system is old dated which needs to be digitized so that there will be a single point record of taxpayers. EBR has started digitization of the system but the same is under process. There is a need to speed up this process to maximize profit and revenue of the country.

7- Taxing the Non-taxed Sectors:

Pakistan has given exemptions and declared many sectors as non-taxed which needs to be changed. e.g. Pakistan is an agrarian state which is an exempted sector. The same needs to be reformed for instance there must be land taxes and agriculture taxes to incorporate this huge sector under taxation. The same is asked to

do by IMF in its latest loan conditions.

8. Transparency and Accountability:

There must be an introduction of transparency and accountability as mechanism to ensure corruption free tax system as well as performance based promotion of a 17 grade officer of FBR get promoted by completing a mentioned time frame and a simple training of 2-4 months. The promotions are based on seniority bases instead of merit base. The same needs to be changed.

9. Investment In Institutional Capacity

There is a need to enhance institutional capacity through mechanism of proper trainings of a grade 16 Inspector Inland Revenue is given only a one month compulsory training. Moreover, there is a shortage of staff and offices in field formations which can not cater the whole of economy. Other than that there is a need to enhance salary and remuneration structure of tax collectors as the department is

Under Point which provides corruption culture in the department.

- Reform Tax Laws:

Pallickar's income tax laws are of 2001. Sale tax act is of 1990 and same old outdated tax laws and procedures are followed in SA Customs and FED. which are complicated not only for officers to implement but also for taxpayers to follow. The same incorporates consultants to elude which further exploit taxpayers and revenue of country. Therefore there is a need to upgrade tax laws and procedures.

How will the Reforms in Tax System will Reduce External

Borrowing:

When the tax system will be reformed by implementation of all above mentioned reforms the same will increase the revenue collection of the country. As the country will have sufficient amount to sponsor its expenses and finances then there will be no

need to go for external borrowings. This will promote a culture of tax payments and curtail tax evasions and facilitate government spending.

Creation of Equitable Economic Environment

Through tax reforms the government will have enough funds to spend on public welfare such as education, health, vocational trainings, development projects and so on. which is limited in current economic conditions. The same can be improved through tax reforms in the country. As more revenue ensures a more equitable economic culture where every element of society gets to have its due share in the resources.

Conclusion:

The tax system of Pakistan is flawed with multi faced challenges which need to be reformed through redefining the tax laws, investment in the institutional capacity, domestic informal economy and increasing tax net. These reforms will enhance revenue of the government and reduce dependency on external lenders.

and the same will provide a more
equilibratable economic environment. Therefore, there
is a need to reform tax system of Pakistan.

Question # 2

Energy Sector of Pakistan:

Energy sector of Pakistan is flawed with structural issues such as higher line losses, high tariff, over reliance on non-renewable energy resources, corrupt practice, and many more which ultimately hinders sustainable energy production, affordable and accessibility to public. Privatization is under multiple issues such as political complexities related to historical experience and inefficiencies of the departments. In this scenario public private partnership (PPP) can play a vital role in provision of accessible, sustainable, and affordable electricity to masses and revitalize this sector of Pakistan.

Political Complexities Attached with

Privatization of Energy Sector:

- Historical context: There are multiple

Political complexities were one attached with privatization of energy sector. One of them is historical experience of IPPs in 1990s which was considered to be a best energy practices under energy sector leads to circular debt which is still ongoing instead of passing three decades. This scenario hinders and generate political opposition towards privatization of energy sector.

2- Public Discontent and Regulatory concerns

There is a huge public discontent towards privatization of energy sector as the public is already paying higher energy bills due to expensive IPP projects and government contract over paying capacity than that there are regulatory concerns over privatization as who will govern it and ambiguities regarding its success generate public mistrust and concerns which create political complexities around privatization of energy sector.

Public Sector Inefficiencies:

1. Lack of Investment and Transmission losses
Pakistan's energy sector suffers with

29/3/ line losses in transmission and distribution losses which is primarily due to lack of investment to develop infrastructure of the energy sector. The age old transmission and distribution lines resulted in line losses. The government under fragile economic conditions is unable to provide any further investment to this sector.

2 Corruption and Lack of Transparency:

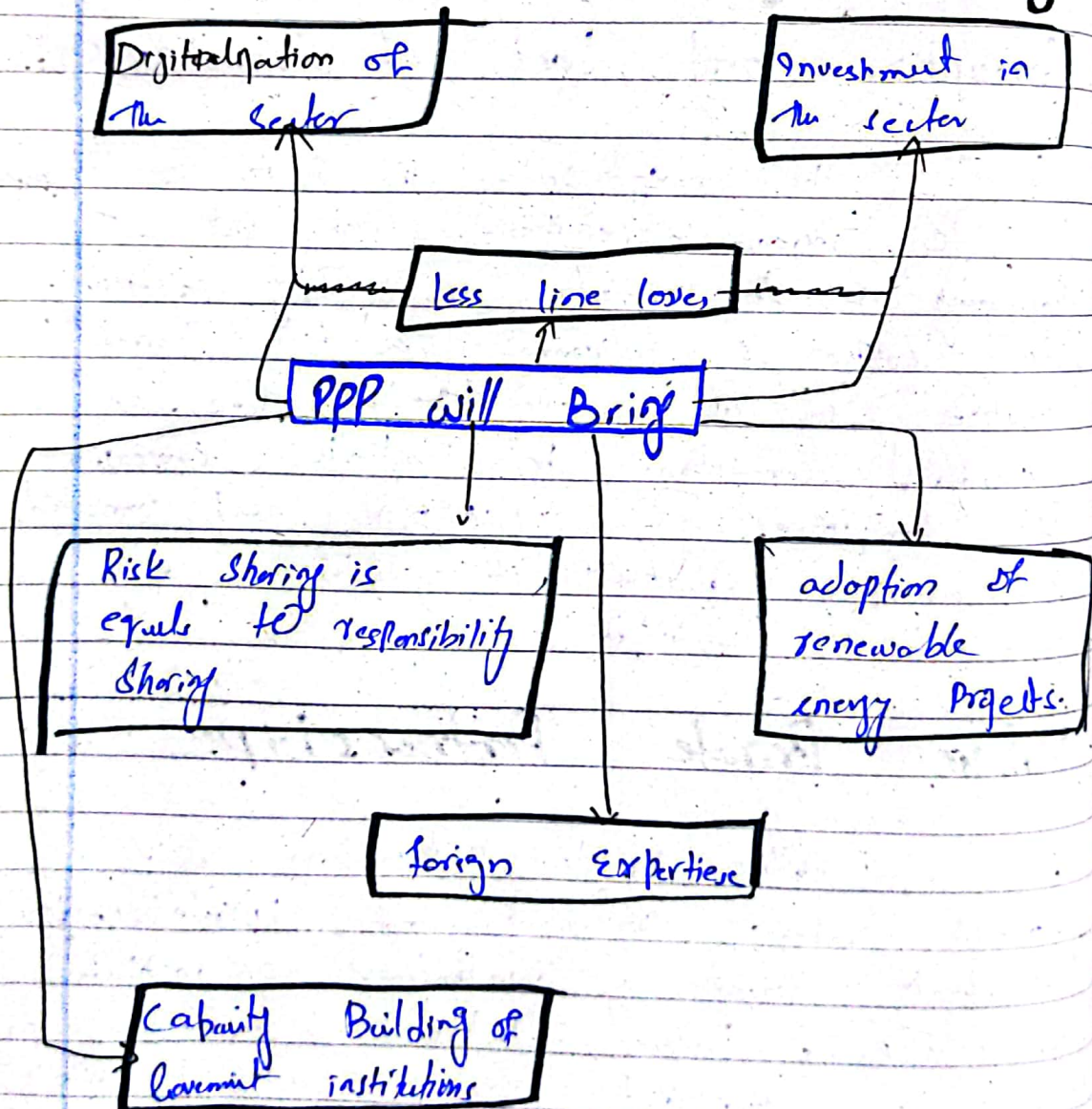
The energy sector of Pakistan is hampered due to increase in corruption and lack of transparency as the institution is heavily politicised. This culture of influence leads to harmful practices such as power theft, free or subsidised connections to landlords, concession to employees of WAPDA and connected subsidiaries. Collectively it creates a weak and inefficient institution.

- Public Private Partnership:

Public Private Partnership is a concept where government and private sector collectively manage a department or institute. The risk is shared, Public or government sector keep an oversight over the project while the private partner brings investment, expertise, management and so on.

The concept of Public Private Partnership in energy sector of Pakistan can provide a reforming phase to this loss making institute.

PPP of Energy sector to Provide Affordable, Sustainable, Accessible Energy



1- Investment In The Sector:

Public Private Partnership will bring investment in the sector to invest in the infrastructure, capacity building, and better structured enforcement. For instance K-electric since its privatization in 2005 has brought \$4 billion investment in the sector which has been used to build and improve electricity supply in Karachi under more accessibility.

2 Less line losses

As Pakistan already has highest transmission and distribution losses in Asia at 29.3% which increases price of electricity to public as well as hampers accessibility and affordability of the same. However, through PPP there will be investment in the sector which will settle, establish new infrastructure and reduce the line losses which is due to old infrastructure. The same will provide accessibility to rural areas as well as there will be investment to cover these areas as well.

- Digitization Of The sector.

The sector will be digitized which means that there will be a proper record of customers, their billing

history, which will help department to ensure availability and transparency in billing moreover, customers will be able to check their bills, track their billing history, pay their bills and receive/download their bills at home. for instance: IC- Electric do the same, customers can download their bills and pay them online.

4- Risk Sharing Mechanism

In PPP there will be a shared mechanism of risk and profit between private investors and government which will motivate both partners as well as we increase accountability as both will be responsible for weather good or bad.

5- Foreign Expertise

This will incorporate foreign expertise and best practices in the system as new management will not do it with old practices instead they will bring their own new, updated expertise to do the work which will increase productivity and efficiency of the department.

6. Capacity Building of Government Institutions

Through Public Private Partnership Government will have a close coordination with Private Sector which will enhance government capacity through learning from private. The same can be beneficial in other departments of government. This will substantiate and improve capacity of government to bring change in other departments as well.

7. Adoption of Renewable Energy:

Through new arrangement and investment there are higher chances to install renewable energy projects and plants. As Pakistan has abundant sources at home. This will reduce Pakistan's dependence on expensive hydrocarbons and can lead to clean and green energy resources. The same will increase affordability, availability and sustainability to the consumers.

8. Role of Government

The government will be involved in this process through Administrative role, Resulating Policies, Keep a check and oversight over private sector.

work will assist private sectors in infrastructure and other matters which relates to them. In this way there will be a proper energy sector in Pakistan.

- Example of UK and Chile

At international level, United Kingdom and Chile are the examples where governments privatised their energy sectors which improve efficiency, affordability, availability, and sustainability to the sectors.

Other than that in Pakistan K-electric is an example which has reduced its loss by 50%. High investment of Al-Jorrah Power Limited backed by Saudi Arabia and National Industries group backed by Kuwait.

Conclusions:

The examples of UK, Chile, K-electric, ... shows the importance of Public - Private - Partnership in energy sector as the same can ensure affordable electricity, provide accessibility to all consumers and a sustainable energy mechanism in Pakistan.