

Q 1

1) Introduction:

Efficient, effective and progressive taxation system holds paramount importance for country's development. It gives government a necessary revenue for spending on public goods, providing services to the people and infrastructural support, critically needed for generating economic growth. Pakistan's taxation system has very weaknesses that significantly undermine its overall revenue stream. Low tax collection means low revenue, which in turn has to be compensated by borrowing debts. Debt financing in itself has become a serious issue for Pakistan's economy due to its overwhelming large numbers. However, the solution only lies in the efficient taxation system which must be reformed on the immediate basis.

2) Understanding the taxation system of Pakistan

Direct taxes  
 - (Income Tax)  
 FED, Wealth tax, property tax

Tax-revenue

2.1

Revenue Sources for Pakistan

Indirect taxes  
 (Sales tax)  
 (Petroleum Levy)

Non-tax revenue

2.2 Pakistan's dependence on indirect taxation

According to the Budget of Pakistan for fiscal year 2024-25, Pakistan's target for tax collection from indirect taxation is around Rs 7.1 trillion, far greater than the Rs 5.9 trillion target to be accrued from direct taxation.

2.3) Implications of Pakistan's more dependence on indirect taxation than direct taxation

As Pakistan depends on more on indirect taxation which means that its taxation system rather making an equitable environment creates more inequality in the country. For instance, if there is increase in the petroleum taxation levels then all the people, whether rich or poor, will suffer. However, this is not the case in direct taxation, in which the tax rate is proportionate to the income levels of an individuals or corporations.

3) NECESSARY REFORMS

FOR PAKISTAN'S

TAXATION SYSTEM

3.1) Progressive form of taxation  
to be included in  
the economic system

Progressive taxation  
means the one who has  
more wealth, resources must  
pay more. This can be done  
by increasing the "direct  
taxation" and keeping the  
same level of "indirect taxation".  
This is also in line with  
the Islamic concept of  
Zakat, as it percentage 2.5pc  
applies on all the money, and  
so as the money increases Zakat  
increases

3.2) Identifying and correcting  
the leakages

According to the  
FBR's report on tax gap,  
there is around Rs 7 trillion  
tax gap every year. This amount  
is more than the half  
of the total taxation of Pakistan  
every year

3.1) Progressive form of taxation to be included in the economic systems

Progressive taxation means the one who has more wealth, resources must pay more. This can be done by increasing the "direct taxation" and keeping the same level of "indirect taxation". This is also in line with the Islamic concept of Zakat, as it percentage 2.5% applies on all the money, and so as the money increases Zakat increases

3.2) Identifying and correcting the leakages

According to the FBR's report on tax gap, there is around Rs trillion tax gap every year. This amount is more than the half of the total taxation of Pakistan every year

3.3 Bringing the informal sector of economy within the ambit of formal economy

Pakistan's informal economy is around 65pc of its total economy. Thus bringing them into the formal sector can bring the huge capital and taxation within it.

3.4) Implementation of legal measures to register more individuals and companies into the FBR online portal

Pakistan this year has remained successful in increasing the registration of the individuals, retailers and manufacturers. According to the FBR, as of Sep 29, 2024 there are 3.2 million registered entities and individuals, for greater than the 1.6 million number of the previous year.

### 3.5 Digitalization of the taxation system

Digitalization not only can increase the tax revenue but also can help in identifying leakages and increasing efficiency in the overall taxation system of Pakistan.

### 3.6) Increased taxation on the retailers, agriculturists and the manufacturer

As per the last year tax profiles, manufacturers has contributed less than the salaried class individuals. Further the retailers, real estate and agriculture sector are also seen nowhere in the top tax contributors.

4) How these reform measures can reduce

reliance on borrowing, and create equitable development

4.1) Progressive taxation

→ "The rich has to pay more, but in proportionate rate"

4.2) Correcting leakages

→ "Not only adds up revenue but also ensures the principal that everybody has to pay his due share"

4.3) Addressing Informal economy

→ Same economic policies for all



DATE: / /

4.4) More and more registration

→ "increases tax-net and thus small taxon measures yield more revenue."

4.5) Taxation on Agricultural, manufacturing

→ "Not only increases revenue, equity but also help in increasing state's ability to spend on other sectors of the economy"

5) CONCLUSION

In a nutshell, taxation system plays crucial role in the economic development of any

DATE: / /

country. It not only increases state revenue but also helps in states ability to address its underprivileged citizens. The importance of tax reforms can be seen from the efforts of every democratic country, since 2008, to increase the taxation revenue.

Q 2

1) Introduction:

Energy supply holds paramount importance for the all sectors of the economy. One of the reasons why Pakistan lags in industrial sector is the costly energy supply to the industries.

Further energy crisis is also posing a serious threat to the national economic security, as the problem of circular debt persists. However, this problem can be cured by implementing PPPs.

## 2) Understanding the political complexities

Following are the main political complexities

2.1) Soothing the employees demand of energy sector

2.2) Tribal areas have low bill recovery rates than the urban centres, exploitation of ethnic divide can be a big & complex issue.

### 3) PUBLIC SECTOR INEFFICIENCY

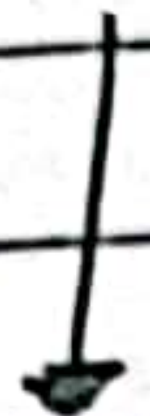
Low recovery rate of bills



High transmission costs



LINE LOSSES



Corruption, inefficiency  
and other problems