International Journal of Innovation, Creativity and Change. www.ijicc.net
Volume 15, Issue 3, 2021

Broadening of Tax Base in Pakistan: Legislative and Administrative Prospects

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The primary aim of this research paper is to analyze the various scenarios of broadening of tax base in Pakistan while dealing with legislative and administrative challenges. Pakistan's formal economy is now subject to a number of hefty taxes, the country's shadow economy is struggling with the challenge of being grossly undertaxed. People find it harder to afford to engage in the formal economy, which will have the additional effect of lowering the income tax base. Numerous interconnected problems, such as disorganized financial systems, lack of enforcement, low compliance, extensive and distorting exemptions and incentives, and constrained tax bases, can be blamed for the growth of Pakistan's total tax gap. Therefore, this paper fills this gap by critically examining the reasons behind Pakistan's stagnant tax base and tax gap. For this research, the qualitative doctrinal research methodology is used that is based on documentary analysis. It conducts an analytical study of broadening of tax base in Pakistan in context of legislative and administrative issues. This paper critically examines the parliamentary statutes, regulations, policies in Pakistan and international statutes, treaties, conventions and other existing data relating to broadening of tax base in Pakistan in context of legislative and administrative prospects.

Key Words: *Taxation, Tax Base, Tax Gap, Tax Revenue, Tax Policies, Tax Amnesties*

Introduction

There has to be a strong infrastructure, including roadways, telecommunications, and energy, for the business to succeed. Governments invest the funds they get from taxes, in infrastructure development, which in turn stimulates the economy nationwide. The concept of taxes is essential to the functioning of businesses because the government has the ability to infuse this money into the economy in the form of financing or other sources of funding. A nation's level of life can improve as a result of increases in tax revenue. When there is a marketplace for their goods and services and a greater standard of living, companies would be assured of higher levels of domestic consumption, which would be beneficial for both parties. Taxes are inevitable, and it is only fair that every person get some benefit from them (Chaudhry et al., 2010).

As per the Government of India Act, Pakistan is responsible for maintaining the same tax structure that India did before the split. The Income Tax Act of 1922 became Pakistan's official income tax legislation when the country gained its independence in 1947 (Mukarram, 2001). The Act of 1922 was subject to as many as 71 legislative amendments between the years 1922 and 1979, which contributed to the complexity of the legislation. In order to address this issue, the government that was in power at the time created a new tax law in 1979 to replace the Income Tax Act of 1922. A new tax law was enacted in 2001, as a result of which, 1979 Act was repealed by the regime of General Pervez Musharraf. There have been more than 2500 changes made to the Income Tax Ordinance of 2001 since it was first introduced (Martinez-Vazquez et al., 2009).

Despite the fact that the primary objective of taxes is to collect financial resources, Pakistan has historically been forced to face challenges associated with a fragmented tax base, high income tax thresholds, and inadequate compliance. According to a consistent trend, Pakistan has, for the most part, been unable to raise the size of its tax base despite the best efforts it has made in this regard. Therefore, historical data provided by the Federal Bureau of Revenue (FBR) suggests that previous advances have been eroded away. In the fiscal years 2003–04, Pakistan's direct tax revenues accounted for 32 percent of the country's total tax collections. The majority of these taxes originate from the payment of income taxes and corporate taxes, which are paid by people and corporations respectively. This group was responsible for 39 percent of all tax receipts in 2006–07, which represents a staggering 48 percent rise in direct tax revenue from the previous year, 2005–06, to the current year, 2006–07 (Husain, 2005).

Since that time, the proportion of revenue generated directly has remained largely unchanged, reaching a high point of 39.98 percent in the 2017–2018 fiscal year. The next year, this proportion continued its downward trend, reaching a low of 37.77 percent; however, it is projected to rise to 38.12 percent in 2019–20 (Munir et al., 2018). After fluctuating about 10 percent of GDP from fiscal years 2004–05 to 2013–14, Pakistan's tax-to-GDP ratio grew to 13 percent in fiscal year 2017–18, as stated by the numbers provided by the Ministry of Finance (Martinez-Vazquez, 2006).

These statistics demonstrate how previous governments have been unsuccessful in modifying Pakistan's regressive taxation system, which continues to place a high burden on lower-income households in order to pay the growing budgetary obligations of the nation. The core issue is that of privileged individuals seizing control of public institutions and entrenched interests have steadfastly resisted both overt and covert efforts to modify the tax law (Saqib et al.,2014). A loan in the amount of 400 million dollars is being provided to the government by the World Bank in order to support a tax reform initiative. Recent reports claim that the administration and progress ratings of the project have been reduced, despite the fact that more than one hundred million dollars have already been paid out for the project (Saqib et al.,2014).

The researcher argues that the despite the funding by the financial institutions like World Bank for tax reforms, the government cannot succeed unless it looks in the root causes of the stagnation of the tax base. The government must create an environment where the taxpayer is able to trust the government and tax administration that taxpayer money will be spend on the public services.

In the given scenario, the primary aim of this research paper to analyze the various scenarios of broadening of tax base in Pakistan while dealing with legislative and administrative challenges. This paper begins with analyzing the key determinants of tax base in Pakistan that include income tax, corporate tax, federal excise duties, sales tax and custom duties. Furthermore, this research article also critically examines the key reasons behind the stagnant tax base in context of legislative and administrative prospects. The legislative challenges comprise of short-term approach of the governments in form of tax amnesties, tax exemptions and preferential treatments incorporated under various legislations, and also the strict bank secrecy regulations which hinders the Federal Board of Revenue access to key information. Moreover, the administrative challenges may include weaker enforcement of the taxation policy by the tax administration and costly compliance of the taxation in Pakistan, trust deficit between the government and taxpayer leading to the low tax pay compliance, and prevalence of informal economy in Pakistan enabling tax evaders to flourish. Additionally, this research also proposes with potential avenues for broadening of tax base in Pakistan and optimal enforcement policies. These measures include promoting progressive taxation rather than regressive taxation, formalization of economy in order to make access to key information, improving tax administration and enforcement and lastly digitalization of tax collection in Pakistan.

Determinants of Tax Base in Pakistan

The most important and major part that contribute to the tax base in Pakistan is the income tax. Legislation pertaining to income tax refers to a specific kind of tax that authorities levy on the income generated by individuals and businesses that fall within their jurisdiction (Aamir, et al., 2011). Taxpayers are obliged to submit an income tax return on an annual basis in order to establish their respective tax obligations in line with the Income Tax

Ordinance of 2001. Income taxes are the primary source of revenue that governments use to finance public services, fulfill their responsibilities, and provide benefits to the general population. The corporate sector in Pakistan is one of the most important contributors to the country's overall tax revenue. In Pakistan, it is unfortunate that firms actively try to avoid paying taxes. The country's high corporate tax rates are one of the primary factors contributing to tax cheating in Pakistan's commercial sector. Pakistan has the third highest corporation tax rate in the world, as per a report that was issued in 2015 by the World Bank (Ahmad, et al., 2016).

The researcher analyses that the existing organization of the department that handles income tax and wealth tax, which is quite well defined, has shown to be effective over the course of its existence. When it comes to the management of various roles in an environment where withholding taxes and other prepayments are becoming increasingly important as major means of revenue collection, the traditional administrative structure's advantage of having a tax unit that encapsulates all tax-related functions has become a disadvantage.

Another key determinant of the tax base in Pakistan ais custom duties. The Customs Act, 1969 is a special statute by nature, termed as fiscal as well as penal. The customs duties system that is in place right now may be described as being quite confusing. The core responsibility structure will be expanded to include a great number of SROs that will allow for general or specialized exemptions. The whole impact is not recognized by the economy, nor is it used by policymakers as a guide for adjustments. When tariffs and Para tariffs are mixed, the structure of tariff schedules is dramatically altered. (Cyan, et al., 2016).

The Customs Department's recent move to introduce job specialization has the potential to be beneficial to the department as a whole. There is some debate on the effective duty rate, although most people believe that the amount of customs duty collected is determined by the total value and volume of imports. This is especially true when considering the fact that the elements discussed earlier have a substantial influence on the amount of income collected.

Moreover, sale tax has become a vital contributor to the tax base in Pakistan. Under the Sales Tax Act of 1990 and its successive changes, the government established the Inland Revenue to handle tax assessment and enforcement. Sales taxes are divided into two groups: sales taxes on products and services. The Federal Government is in charge of enacting the laws governing the sales tax on products, which has been set at 17 percent since 2013 (Hayat, et al., 2020).

The structure of the sales tax system as it exists now places limitations, of sorts, on retail establishments. As a result of the limited base, the manufacturing, distribution, and consumption chain regularly experiences disruptions. There is sufficient opportunity for tax evasion as a result of the existence of a broad variety of exemptions, including those that are connected to an organization's yearly gross revenue in the case of merchants. When there are exclusions in place like this, it is hard to impose a zero rate on exports. A sales tax is the same thing as a value-added tax, which is applied on purchases. When a taxable supply is made in the course of a "taxable activity," then and only then is the tax assessed and paid. The value of the goods or provisions is the amount that will be subject to taxation. Because of the way the sales tax is structured, it is required that the preponderance of the tax burden be borne by the customer. This is because sales tax is considered an indirect form of taxation. To put it another way, the registered supplier acts as a vehicle for the government organizations who are in charge of tax collection to receive and collect the tax (Amjad & Audi, 2018).

The researcher observes in the next years, the Products and Services Tax (GST) is expected to transform into a consumption-based Value-Added Tax (VAT), which will apply to all purchases and sales of goods and services across all levels. As a consequence of this, the range of work available will greatly broaden, particularly in relation to activities other than the collection of sales tax at the point of importation.

Another significant determinant of tax base of Pakistan is excise duty. Excise taxes are levied on specific goods and services in certain circumstances. Commodities are subject to a variety of different types of taxes, including *ad valorem* levies based on value, particular rates based on weights/volumes, and a proportion of the retail price. Billing for services can be done on an hourly basis or according to *ad valorem* duties, whichever is applicable. Prior to the passing of the Act in 2005, the idea of capacity taxes was put into practice only in a limited number of contexts. As of July 1, 2005, the Federal Excise Act of 2005 had replaced the Central Excises Act of 1944. A number of major changes were made by the new law, such as the need for all certifications to be self-assessed instead than necessitating prior authorization, and the outright elimination of the physical supervision system (Karagöz, 2013).

Excise duty was applied to more than seventy different products, but only a handful of those products namely, alcoholic drinks, tobacco products, cement, artificial sweeteners, oil and gas, and petroleum products were the primary revenue generators for the government, accounting for approximately seventy percent of all tax revenue. There are considerable losses of excise charges associated with both the supervised or unsupervised clearance of products and services. (Kamal, 2019). The researcher asserts that these people are especially vulnerable to tax avoidance.

Reasons behind Pakistan’s Stagnant Tax Base: Legislative and Administrative Prospects

Legislative Prospects

The first and foremost reason is the short-sighted and short-term approach taken by the tax adminsitration in Pakistan. The tax and financial policies of a country have significant effects. Amnesty programmes stand out among these economic policies because they give taxpayers and non-taxpayers alike the ability to pay a certain amount in exchange for a decrease in their tax liabilities from prior tax years without incurring any criminal or civil consequences. It is one of the short-term strategies that is most commonly used by developing nations to improve tax rates and income. This strategy works by encouraging individuals to declare their earnings and assets in order to contribute to national revenue. Developing nations use this technique the most. Amnesties from paying taxes are one method through which people's tax compliance can be improved. On the other hand, only a small number of countries throughout the world utilise this tactic since it is seen as a problematic weapon (Ibrahim, et al., 2017).

Tax rates in Pakistan are among the highest in the world. Therefore, even after being included in amnesty programmes, individuals continue to perceive taxes as an onerous obligation. According to the findings of the study on Pakistan's tax amnesty programmes, there is no assurance that increasing the number of initiatives available would result in an increase in either income or the number of individuals who take advantage of the tax amnesty schemes. As a consequence of this, the Foreign Assets (Declaration and Repatriation) Act of 2018 was passed into law. While amnesty programmes did help in generating new money, the examination of their effect on the GDP demonstrated that their intended effect of encouraging more responsible tax behaviour was not achieved. Nevertheless, the findings of the tax revenue study indicated that even after the asset declaration programmes of 2016 and 2018, there was no increase in the amount of tax revenue collected (Ahmed, 2019).

Since amnesty programmes were shown to be used more for political and personal aims than for economic concerns, it was proved that their continuation did not boost tax revenue or tax compliance practises. Because it encourages people to put off filing their taxes and disclosing all of their assets in favour of hoping for a better plan in the future, this strategy was judged improper. Second, it generates the issue of moral hazard among the current honest taxpayers because, as anticipated by the history of schemes in Pakistan, repeated amnesties deter them from paying tax on time and encourage them to wait for amnesty programmes so that assets may be reported at a cheaper rate (Ashfaq, 2019). The resercher argues that when it comes to implementing policies that might discourage tax evasion, Pakistan has never made it a top priority to develop policies that address governance, structural changes, or processes.

Amnesty programmes aren't enough to get people into the appropriate tax categories; instead, instruments and mechanisms that permit compulsory asset declaration are required. The fact that many Pakistani individuals and officials have set up offshore accounts to hide wealth is another issue the country must deal with (Qatar et al., 2017).

Moreover, tax expemtions and prferential treatment to certain segements of society could lead to the stegnation of tax base. Under the Income Tax Ordinance of 2001, many sectors of society are afforded tax exemptions and other forms of preferential treatment. The second schedule of the Income tax legislation includes a complete list of exemptions from income tax that are available to both individuals and companies. It is important to note that during the fiscal year 2018, 56 percent of all expenditures were made in accordance with Section 56/B of the Income Tax Ordinance of 2002. This provision exempts businesses from paying tax on investments made for the purchase of machinery and plant, as well as the extension, expansion, balancing, modernization, and replacement of the plant. In addition, it allows companies to deduct the cost of modernising and replacing plant (Ahmed & Vaqar, 2009).

According to Pakistan Economic Survey 2020-21, the yearly cost of tax exemptions offered to various societal groups and foreign investors has further increased to a new high of Rs1.31 trillion, a rise of more than 14 percent within a year. Over the past three years, the government has exempted taxpayers from paying a total of Rs3.43 trillion in taxes, which is an amount that is greater than the cost of the debt service paid by the federal government. Certain tax exemptions that have been granted over the course of history are protected by the regulations that govern taxes. However, no government has yet been successful in reducing the number of exemptions available, and some of them place an even greater burden on other classes than they do already (Survey, 2020). The FBR has forecast that the cost of income tax exemptions will be Rs 449 billion this year, which is an increase from Rs 379 billion in the fiscal year prior to current one. The poll results support this projection. The amount of income tax exemptions grew by 18.6 percent, which corresponds to an increase of 71 billion rupees. This rise is mostly attributable to the fact that tax breaks were offered to affluent business people, authorities, and specific businesses (Survey, 2020).

Another major reason of stegnation of tax base is strict bank secrecy laws in Pakistan. Bank secrecy may be seen as an expression of data protection when applied to the context of information pertaining to clients that originates from the business contact between natural people and legal persons of a credit institution (Kidwai, 2006).

In 2018, the government demanded that financial institutions share data with the Federal Board of Revenue (FBR) in order to efficiently carry out the Benami Transactions (Prohibition) Act of 2017, which was passed in 2017. Even after explicit initiatives were introduced by the Parliament to the Income Tax Ordinance, 2001, overruling special legislation, certain banks and Other financial institutions have tried to resist sharing client information and reporting fraudulent activity, making the country stand out as an extremely rare example of a country in which this practise persists (Kemal, 2014).

Overriding all current laws, including but not limited to the Banking Companies Ordinance, 1962, the Protection of Economic Reforms Act, 1992, the Foreign Exchange Regulation Act, 1947, and the regulations made under the State Bank of Pakistan Act, 1956, Section 165A of the Income Tax Ordinance, 2001 mandates that every banking institution make arrangements to give the FBR internet access to its central database containing information about its account holder.

The banks opposed the disclosure of information on the grounds that legal provisions, such as section 165A of the Income Tax Ordinance, 2001, cannot override special laws, including such the Protection of Economic Reforms Act, 1992 section 3, the State Bank Act, 1956 Section 46A, and section 33A of the Banking Companies Ordinance, 1962. Furthermore, in a case of Amjad Qadoos v. Chairman Accountability Bureau (NAB) Islamabad & Others (2014

SCMR 1567), it was held by Supreme Court that general laws cannot supersede the special laws. In addition, the Supreme Court of Pakistan has issued several precedent-setting rulings on the topic of bank data disclosure.

This article argues, from the foregoing discussion, that it should be clear that the State Bank of Pakistan and the FBR do not have the legal authority to compel banks to reveal information on legitimate financial transactions, including the names and details of their customers. However, if the tax department or other authorised entities discover tax fraud or evasion, the law requires the bank to give information. Following the Supreme Court's directives in Irshad Ahmad Sheikh v. The State, (2000 SCMR 814), relevant information is provided to the relevant individual(s) or entity(ies).

Adminitrative Prospects

The FBR has been oftenly criticized for its weaker enforcement of taxation policies and costly compliance. The administration has termed the Finance Bill 2020 as a growth budget, with a continuous emphasis on growing output and productivity. In an ideal world, the required monies should be obtained without compromising the incentives already in place for existing taxpayers to abide by the law. In the same line, it is a good notion that the primary focus of this budget be on expanding the revenue base rather than increasing the rate of taxation (Freybote, Julia, 2019). According to the Constitution of Pakistan, provincial governments are in charge of levying taxes on movable property, services, and agriculture. These three sectors collectively account for a sizeable portion of Pakistan's economic activity and, as a result, a sizeable potential source of tax revenue. Because they are dependent on the transfer of shared federal money, provincial governments appear to have limited administrative capability and little motivation to mobilize local revenue. This is because federal monies are divided between the provinces (Freybote, Julia, 2019).

Because of the significant gaps that exist between the letter of the law and its application in practice, observing legal requirements can be both difficult and expensive. Even though the number of taxpayers has increased from 1 million to 2 million as a direct result of new prohibitions, tax filers are being discouraged from continuing to file because their previous records are being further questioned. This is despite the fact that the number of taxpayers has increased (Razzaq et al., 2020). In addition, conducting an audit and verification of an industry's tax filings or compliance with regulations is a tedious process. The incorporation of a self-assessment framework was one of the most significant additions to the income tax code. However, the extensive scrutiny of each as well as every line item in tax returns, as well as the profit and loss statements and balance sheets of the businesses, in the first assessment order, has rendered self-assessment irrelevant (Razzaq et al., 2020).

In addition, because the verification procedure is often done manually, firms have to spend additional time interpreting financial information from their expensive digital systems. This results in additional labour costs. In spite of the fact that slack and sluggish enforcement create chances for rent-seeking, the frequency and quality of tax audits are inadequate to rectify taxpayers' self-assessment. At the moment, demand accounts for only 4 percent of the total collection across the country; the other 96 percent is dependent on enforcement (Naveed et al., 2019).

In addition, there is a trust deficit exists between both government and citizens regarding paying of taxes in Pakistan. Taxation is the price that citizens have to pay in order to have access to public resources. If the bulk of items sold to the public have to be acquired separately from those sold to the broader public, tax compliance will drop by a significant amount (as extortion money). It is a common misunderstanding that people in Pakistan do not have to pay taxes, which is completely wrong and unjustified. Everyone is responsible for paying both direct and indirect taxes. It is illegal for anybody, including beggars and street vendors, to ask for money from passersby on the street without first making a payment to a government employee. In conclusion, everyone is responsible for paying taxes; the only question that remains is what percentage of those payments go to the government coffers and what percentage goes to the salaries of public employees (Khan et al., 2020).
There is a great deal of dissatisfaction among the general population of Pakistan regarding the availability of public sector services and, more importantly, the quality of those services, in particular in the fields of education, health, housing, and safety. Clear signs of this include the fact that fewer than sixty percent of households make use of public education services, that only about thirty-six percent of households make use of health services, and that an increasing percentage of households opt for private housing societies. Comparatively, less than twenty percent of individuals living in Pakistan's largest cities make use of the public transportation system, whilst the remaining eighty percent of people drive their own automobiles (Khan & Ahmad, 2014).

However, because fewer than 1 percent of the population pays income tax, the Pakistani government views this as a direct result of the bulk of its inhabitants evading taxes. However, the government has also implemented a number of additional indirect taxes that are undoubtedly not progressive in character and a flawed strategy for raising tax revenues. This kind of taxing may raise government revenue in the near term, but it fails to achieve other policy goals that may be reached with a well-defined tax policy and system, such as lowering income disparity and fostering the growth of the private sector. The average person not only views paying taxes to the government as providing little value, but they also see the government's taxation policy and how it is carried out as unjust because it has essentially the same impact on wealthy people and poor people (Khan & Ahmad, 2014).

The researcher contends that there is a kind of impasse in Pakistan between the government's desire for tax revenue and the citizens' expectation that the government will deliver services to their satisfaction before they begin paying taxes.

The term "drawing the black economy (informal economy) into the tax net" has become the motto of the present administration in Pakistan, and it is also the current national slogan of

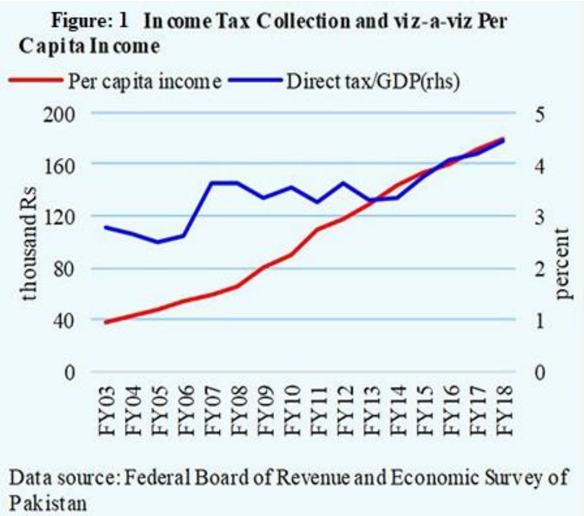
Pakistan. Many unregistered enterprises in Pakistan are attempting to evade paying taxes, which contributes to the country's corporate tax evasion problem. The situation can be more challenging for businesses that operate in the wealthier part of the informal sector. They are driven by the desire to avoid paying legitimate taxes, a tax system that is complicated and stringent, and indulgent tax authorities who are more than prepared to "settle" through unlawful payments as long as they get their way. Even if it can be difficult for them, as well as state authorities, to agree on the meaning of these "taxes," and most of the company owners hold the view that they are free from taxes (Sam, 2010).

According to the opinions of some scholars, the growth in the number of requirements to make payments for economic security and income tax is one of the primary causes that has contributed to the development of the informal sector. Taxes have an effect on employees' decisions about their leisure time and expand the labour market in the informal economy; economists are concerned about the decision's potential to twist the market. The larger the gap is between the entire cost of labour in the formal sector and after-tax wages, the greater the incentive there is for individuals to seek employment in the informal sector in order to fill the gap (Khan & Akhtar, 2020).

It is essential for there to be a fair tax system in place. Due to the perception that paid individuals are simple targets for tax collection, the state has had a difficult time expanding its income base. As a result of their political power, certain corporations are exempted from paying the full amount of taxes that are due to them, while average individuals who receive a paycheck on a monthly basis are forced to shoulder the burden. Workers in the underground economy are a burden on the honest tax payer since they resist contributing to the system (Gulzar et al., 2010). This article argues that an increase in the informal economy reduces state tax revenues owing to tax evasion. Hence reducing the availability and quality of publicly sponsored goods and services. Long-term, this might lead to higher tax rates for those working in the public sector, which is often accompanied with a reduction in the quality of vital services.

Potential Avenues for Broadening of Tax Base in Pakistan and Optimal Enforcement Policies

Over time, Pakistan has the capacity to roughly double its present tax income to GDP ratio. For this purpose, the government should adopt progressive taxation policy. When it comes to supporting government operations, direct taxes are almost always considered to be the most reasonable and equitable manner. Direct taxes contribute to a more progressive society by helping to ensure a more equitable distribution of income and by cutting down on inequality. In Pakistan, such redistributive mechanisms haven't been utilized to a significant degree, and the country's tax structure is still disproportionately weighted toward indirect taxes that are regressive in nature.



Data Source Figure 1: Federal Board of Revenue/Economic Survey of Pakistan (Pakistan, 2019).

Data Source Figure 2: Federal Board of Revenue/World Bank (Pakistan, 2019).

The average rate of direct tax revenue as a proportion of GDP between FY03 and FY17 was 2.9 percent; however, that rate jumped to 4.3 percent in FY18 from a previous average of 2.9 percent. The rise in tax collections, on the other hand, was not very impressive when measured against the growing levels of national income. Pakistan's portion of global tax revenue falls roughly in the middle of the pack when compared to that of other rising nations. Withholding taxes (WHT) account for around 70 percent of direct taxes. These taxes can occasionally be reclassified as indirect taxes when they are transferred on to end users. For example, over half of the WHT is collected through agreements and advance taxes on imports, both of which contribute to an increase in the overall cost of products and services. When WHT is taken into account, the percentage of total FBR taxes contributed by direct taxes is reduced from 40 percent to 12.5 percent (Pakistan, 2019).

There are limitations, to what can and cannot be done, within the confines of a progressive tax structure. First, the premium economy, which makes considerable contributions to the GDP, may lose intention of working in Pakistan and choose to shift their operations to nations with more business-friendly tax regulations. This would have a negative impact on the economy. As a direct consequence of this, Pakistan's budget deficit would widen, which would lead to a rise in the country's total debt. The United Kingdom recently reduced its tax rates, which resulted in a huge increase in the amount of foreign investment flowing into the country. As a result, it can be argued that progressive tax systems are unfair since they raise the amount of tax burdens owed by taxpayers in proportion to their growing levels of income. People in economies with regressive economic structures are incentivized to labour more because these structures allow them to keep more of the money they earn (Pasha, 2010).

This article finds that, regressive taxes may be used to encourage individuals to save money, which is typically not rewarded under progressive taxation, while also encouraging people to avoid engaging in behaviours that are considered dangerous. Thus, rather than criticising Pakistan's regressive tax policy, one should give greater attention to managing rising prices, improving the balance of trade, and boosting employment because these issues urgently require the attention of the government.

Most developing economies have large proportion of their economies based on informal, cash-driven transactions, which means they are not captured by the tax base. It's possible that Pakistan may try a few different things to improve the quality of the information it produces. According to the research, the implementation of a value-added tax, often known as a VAT, is expected to raise revenue by producing a paper trail between firms through the process of cross-reporting of responsibilities. In continuation of this thought, VAT system in Pakistan has certain challenges. For Instance, there is a need of only one organisation to apply the VAT uniformly. On the other hand, it is split between the federal government and the governments of the individual provinces of Pakistan, which makes administration and coordination problematic (Khan & Akhtar ,2020).

The implementation of risk-based audits and the strengthening of tax enforcement procedures are both more important than they have ever been. In order to improve the performance of the FBR, more measures of stringent supervision and funding for the capacity building of resources are going to be required. The complexity that has been introduced to the tax system over the past 20–25 years is one of the most significant challenges that the industry faces. Automation of the tax system is very necessary in order to have a smooth transition to a more digital system that has fewer costs associated with compliance. Pakistan has to take two separate steps in order to make its enforcement more effective. Those employees should be hired initially who have a higher education and are already familiar with the appropriate equipment (Ahmed, et al., 2015).

This article finds that Pakistan is also in a need to concentrate on matching the government's incentives with those of the bureaucracy responsible for tax collection. This is a typical principal-agent dilemma in which politicians give bureaucrats the responsibility of collecting taxes yet are unable to fully supervise them. At the same time, the bureaucrat who is working closest to the situation is likely to have the most information. Because of the information gap that exists between the two groups, tax collectors need to be appropriately motivated to ensure that taxes are collected in a thorough and fair manner.

Digitalization is key to progress in any filed in modern day era. A one-link system for the online collection of government taxes and fees has been developed by the Federal Board of Revenue in collaboration with the State Bank of Pakistan. This would be acceptable as a method of payment for the payment of income tax, sales tax, excise taxes, and customs fees. Such a plan aims to help tax payers and reduce leakage rates while also enhancing payment processes, particularly in the context of revenue collection. By reducing the likelihood of inefficiencies in the tax collection system, this action is also anticipated to favourably contribute to revenue production. The electronic tax collection and the expansion of revenue are highly associated with one another. Therefore, it is envisaged that taxpayers would benefit from improvements in the tax collecting process brought about by digitization, and that these enhancements will also boost revenue collections (Kleven, & Waseem, 2011).

This article argues that there are several concerns that need to be addressed before the installation of the system can be considered a success. "Computer literacy" may be achieved, from the point of view of tax payers, by giving training to guarantee that both tax payers and tax authorities are able to utilize computerized procedures. This is important for compliance purposes. While the tax collection agencies could further simplify digitalization operations like electronic filing and payment. Additionally, the digital hazards that arise from this system must be properly considered. To earn the trust of taxpayers and advance digitization, cyber privacy and security problems should be thoughtfully addressed.

Conclusion and Recommendations

To summarize, the government is always in need of revenue streams. Every government, no matter where it is, is always in need of money; however, in Pakistan's current situation, increasing income is absolutely necessary in order to escape the storm that we are currently in. The collection of financial resources is the most important aspect of it. Tax evaders are the only ones who stand to gain from the existing system; honest taxpayers and genuine company owners have no motivation to register as such. Its sole purpose is to intimidate people into giving money. This article concludes that it is a dysfunctional system with several flaws and no incentives for a representative to behave ethically. This has solely evolved into a culture of making frequently incorrect tax claims, leading to pointless lawsuits and a backlog of several million cases spanning decades.

In addition to above, this article finds that there are various legislative and administrative challenges that needs to be dealt with. Firstly, the key challenge is the short-term approach of the government to increase revenue collection in shape of tax amnesties. Moreover, the existing legislation also contributes towards the stagnation of tax base by preferential treatments and offering tax exemptions to the elite class of the society. Also, the strict bank secrecy regulations which hinders the Federal Board of Revenue access to key information causing tax evasion leading to tax stagnation. Moreover, there are also some administrative challenges that are contributing towards stagnation of tax base in Pakistan. It includes the weaker enforcement of the taxation policy by the tax administration and costly compliance of the taxation in Pakistan, trust deficit between the government and taxpayer leading to the low tax pay compliance, and prevalence of informal economy in Pakistan enabling tax evaders to flourish.

In the light of above-mentioned challenges, this research proposes some potential avenues for broadening of tax base in Pakistan and optimal enforcement policies that could help Pakistan to deal with issue of stagnation of tax base and increase tax revenue streams. Firstly, the government must stop offering amnesties schemes to tax evaders as a short-term source of revenue. This creates trust deficit between government and citizens and tax evaders flourish under such mechanisms. Furthermore, tax administration should play a key role in enforcement of tax policies and must reduce the cost of tax compliance. Also, there is need of amendment in the existing laws relating to bank secrecy in order to provide a free and fair access to the information of taxpayers who have money in their bank accounts and providing false information while filing returns. These measures may also include promoting progressive taxation rather than regressive taxation, formalization of economy in order make access to key information, improving tax administration and enforcement and lastly digitalization of tax collection in Pakistan.

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