**[An unfair taxation system](https://www.dawn.com/news/1649468/an-unfair-taxation-system)**

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ONE of the bigger issues with our tax system is the deep-rooted unfairness that has been built, by default but often by design, into the system. Those who are documented and in the tax net, by choice but often due to the nature of their job/business, pay a lot. At the same time, those who are able to avoid documentation have been getting away with paying very little or nothing for a long time, and, to add insult to injury, many have been rewarded repeatedly by the state through amnesties of one sort or another. In addition, the state has removed many taxes to again benefit particular classes, while there are also entire sectors that have, at one time or another, been exempted from taxation.

How should those who are in the net and have to pay all taxes feel about the tax system and about the state?

The other side of the unfairness is that most of those who have to pay taxes or are fine with paying these taxes also feel they do not get much in return from the state. The state offers health and education facilities of poor quality generally speaking. Most of those who are in the middle-income and higher-income groups choose to access private providers in these areas. The provision of water and sewerage, waste collection and even security is often supplemented by accessing private sector providers or is wholly dependent on the ability to buy services from private providers.

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Many taxpayers feel that the unfairness extends further. Several taxpayers are able to buy services from the private sector but many citizens, who do not have enough resources, depend on services (water, sewerage, health, education, security) provided by the state. They get poor quality service. So, even for those who depend on the state, if the state, from the revenues collected through a system that lacks fairness and is coercive in parts, cannot provide for those who depend on it, how can citizens feel comfortable with such a situation?

The rub becomes more abrasive when taxpayers feel the state does not give anything back to them.

Income tax rates go from five per cent to 35pc. If you are in the middle or a bit above that in terms of your monthly income, and happen to be in the tax net — true for almost the entire salaried class and documented businesses — it is likely you are, on average, paying 15pc to 20pc of your income towards income tax alone. The salaried do not even get to pay this; they get their salaries post-income tax deductions.

Then there is the sales tax which, on most goods and many services, is around 16pc to 17pc. There are special levies and taxes on the provision of a lot of goods and services that have inelastic demand (good and services where price increases do not dent demand by much) or from where the state can collect tax easily and with low-collection expenditures. These include telephone bills, gas and electricity provision as well as petroleum products. Twenty-five per cent of the amount I paid for my electricity bill this month was additional taxes and surcharges. The level of taxation on petroleum products, though kept a lot more opaque on purpose, is substantial too. All other services, road tax and local water and other surcharges included, are taxed as well.

Salaried people and those who happen to be documented and in the tax net, probably and on average, end up giving about 50pc of their income back to the state in the form of one tax or another. This is not, by any means, an insignificant proportion.

Those who are not in the tax net and/or may have been given exemptions, on average just end up paying the indirect taxes. The unfairness is clear. Why should the agriculturalists not be taxed? Why should traders pay much less, or people making gains in property markets or capital markets? To say that the state is unable to build taxation systems for them is part of the unfairness. This situation has persisted over decades. Why has the state failed to create a fairer system over these decades?

But the rub becomes a lot more abrasive when taxpayers feel the state does not give anything back to them, for all the tax they pay or have to pay. Most of the taxpaying population rely on private provisions for access to health, education, water, waste collection, and even services like security. There are no pension benefits or other benefits for employees in the private sector. I will, post 60, get Rs9,000 a month from the old-age benefit scheme. This too is money that is largely employer contribution.

And, to make matters worse, the quality of services that the state provides, is generally poor. So, citizens who have to depend on state provision for any access to these services continue to suffer while those who pay taxes are doing their part and more. This adds to the perceived and real unfairness of the system.

Despite promises made by successive governments, the state has been unable or unwilling to expand the tax net. But the need for revenues and the pressure to generate revenues increases every year. The state, whether it likes it or not, ends up either relying on indirect taxes or on milking those who are already in the tax net even more. Both options increase the unfairness of the tax system. We need a way forward that will disrupt this dynamic. If it is not disrupted the ability of the state to generate more revenues, even with coercive means, will go down and this could be disastrous for our economic growth and stability. The impact on citizen loyalty and social contract can be significant as well.

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