**[Revenue collection—a new look](https://nation.com.pk/18-Nov-2020/revenue-collection-a-new-look" \t "_new)**

Dr Kamal Monnoo November 18, 2020

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While coming from the FBR (Federal Bureau of Revenue) it somewhat makes sense, but it has almost become a fashion in Pakistan to the point of becoming a fault that nearly everyone from the average man on the street to the most celebrated intellectuals call out the fact that Pakistanis do not meet their fair tax obligations and only if everyone paid their taxes rightfully the country could overnight be the Switzerland of South Asia! In fact, a political party built a complete narrative around it and given its persistence around this slogan it finds itself in power today—never mind that since they have visibly backtracked on this aggressive stance, discreetly realising on assuming power how wrong they originally were! In fact extensively talking about the presence of systemic corruption in the prevalent taxation structure or tax evasion per se only makes it spread like a virus. Though no denying the obvious that few people enjoy paying taxes, which necessitated the famous statement from Maynard Keynes, “Taxes are what we pay in return for a civilised society”. However, the empirical reality is that to make people pay their due taxes the revenue collection reforms or any other meaningful tax enforcement initiatives are only successful when they are ringed both, quietly and gradually.

A creative study by the economists Jorg Paetzold and Hannes Winner sheds light on the extent to which peer behaviour influences tax evasion. It employs data from Austria, where the government allows workers to deduct commuting expenses from their income for tax purposes. Under the allowance the workers report their total commuting distances, and it is then their employers’ responsibility to certify the accuracy of their reports. However, since many employers devote few resources to verification, misreporting entails little risk of punishment. Combining detailed tax data with employer and worker-location data, the authors found that the claiming of excessive commuting expense deductions was in fact widespread. By itself, the result is hardly surprising, but what was fascinating was the extent to which peer behaviour influenced the exaggeration of deduction claims. To estimate that magnitude, the authors focused only on people who had moved to new workplaces during the current tax year. Those who were now employed by a company where tax evasion was either the same as in the previous workplaces or less common showed no change in their rates of tax evasion. But the pattern was strikingly different for workers who had moved to a new job in which tax evasion was more common. For these workers, it grew by an even larger proportion than the one by which their new colleagues’ tax evasion exceeded that of their former colleagues. Moral: The more people know about tax evasion and realise that it is something that is doable, the more rampant it will become.

The real way forward according to the authors is to instead make people believe that paying taxes is a standard norm, which most are practicing in any case and hence to be a part of the respectable class and to be looked upon as a trustworthy person one needs to discharge his/her tax liability honestly; just like most others are doing. Assessments of trustworthiness depend not only on information about you personally, but also in general on the public perceptions of trustworthiness in people.

For example, despite possessing sound personal characteristics, one is less likely to be deemed trustworthy in a population where only 10 percent are scrupulously honest than for instance in an environment where almost everyone is honest. The upshot for evaders then becomes in knowing that quite independently of any change in their own personal behaviour or characteristic, any change that makes others more likely to evade the system also at the same time makes them less likely to judge you adversely even if your personal trustworthiness stands receded. This is something that reduces one’s own payoff in striving to be trustworthy, which in-turn increases one’s incentive to stray, and so on. Meaning, the more the government or the tax collection agency (in our case the FBR) creates a perception that majority is dodging taxes, the very yardstick of being perceived as a trustworthy person drops, taking down with it the very underlying incentive to be considered as a respectable, responsible and a trustworthy citizen by way of honestly discharging one’s due taxes.

Examples of countries who have slipped from once being tax compliant due to this very fundamental mistake their governments committed over time are a plenty in the economic history of nations. The United States being once firmly a member of the small group of 30 countries where tax compliance was well entrenched, today finds itself relegated to a level where its present tax collection is not even sufficient to sustain its existing infrastructure, what to talk about expanding or modernising it. Other examples can be drawn from countries like Venezuela in South America and Spain & Greece within the European Union, to name only a few. It may take people a bit of time before they realise the extent to which others are evading taxes, but once they do, compliance starts falling very rapidly. Could this be the reason why the tax to GDP ratio in Pakistan has been sliding over the last 2/3 years instead of being on an upward trajectory?