**Tax Landscape Pakistan**

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The World Bank, in its October 2023 publication titled “Pakistan Development Update”, highlights the significant importance of “Restoring Fiscal Sustainability” within the country. The report presents a comprehensive roadmap that has been revealed to address the pressing issue of fiscal constraints. The World Bank has recently proposed a set of recommendations to strengthen Pakistan’s fiscal framework.
One of the key proposals entails initiating taxation on monthly salaries below Rs.50,000, a move that seeks to broaden the tax base and enhance revenue generation. Additionally, the World Bank suggests reducing the highest income tax bracket, bringing it down from Rs500,000 per month, which currently imposes a 35 per cent tax rate on salaried individuals.
If Pakistan accepts these recommendations, it would undoubtedly place an additional burden on an income group that is already grappling with heavy taxation. The persistent weight of the fiscal deficit continues to loom over many individuals. In the ever-evolving fiscal landscape of Pakistan, one must recognise the pressing need for a substantial boost in the tax-to-GDP ratio. The tax-to-GDP ratio has seemingly been trapped within the confines of a narrow range of 9 to 11 per cent over the past decade. In contrast, the tax-to-GDP ratio of the Asia-Pacific region outshines that of Pakistan, typically hovering around average of 29 per cent. The gaze towards the Organisation for Economic Co-operation and Development (OECD) depicts a staggering average 34.1 per cent tax-GDP ratio. It is evident that there is much ground to cover to catch up.
In the realm of fiscal policy, there exists a critical threshold known as the ‘tipping point’ of the tax-to-GDP ratio. It has been widely acknowledged that once this ratio surpasses the 15 per cent mark, it plays a pivotal role in fostering economic growth and mitigating poverty. This significant milestone empowers countries to harness a considerable pool of domestic resources, which can then be judiciously directed towards fostering overall societal well-being and driving developmental endeavours.
The tax-to-GDP ratio should be augmented equitably and rationally. The presence of indirect taxes – a composite of customs, sales, and excise tax – in Pakistan is frequently deemed undesirable due to their perceived unfairness. For instance, the Goods and Services Tax (GST), which accounts for 69.4 per cent of total indirect taxes, is a central indirect tax applied uniformly to all individuals, irrespective of their monthly income level, whether 10,000PKR or one million PKR. Pakistan’s government raised the GST from 17% to 18% to generate a sum of 170 billion rupees in the last four months of FY-23 to release the critical IMF bailout package. The regressive nature of this tax renders it inequitable and absurd.
In 2013, the Supreme Court of Pakistan rendered a ruling declared a 1% increase in GST null and void. This decision was primarily motivated by the observed substantial repercussions of the tax hike on the vulnerable segments of society, particularly the poor and lower quartile of income groups. Nevertheless, in a perplexing turn of events, it appears that the authorities have failed to fully execute the decision handed down by the esteemed Supreme Court.
In fiscal matters, it is imperative to shed light on a staggering 59.3 per cent share of indirect taxes in the overall landscape of tax revenue. The regressive nature of indirect taxes becomes glaringly evident, as it disproportionately affects individuals with lower income levels more than those with higher income levels. In a comprehensive empirical analysis conducted by esteemed economist Kaiser Bengali, it was observed that the richest 10 per cent of individuals in Pakistan contributed a mere 5.9 per cent in indirect taxes. Conversely, the poorest 10 per cent have shouldered a significantly higher burden, contributing 9.3 per cent. This disparity raises important questions about the fairness and equity of the current tax system in Pakistan.
In contemplating the enhancement of the tax-to-GDP ratio, it is imperative to avoid imposing an unduly burden on the already beleaguered taxpayer. Rather, the focus should be on broadening the tax base. Currently, 3 million individuals or 1.3 per cent of the population, are registered with the Federal Board of Revenue (FBR). This figure is pales in comparison. Specifically, it stands at a mere 4.7 per cent in India, a significantly higher 58 per cent in France, and an impressive 80 per cent in Canada. The state of direct taxes in Pakistan needs to be more satisfactory, as it is observed to be 38.4 per cent. This figure falls significantly below the 61 per cent rate observed in the OECD countries. The lower direct taxes can be attributed to the notable prevalence of the informal sector, which accounts for approximately 30.49 million individuals or 72.5 per cent of non-agricultural employment
Given the backdrop of perplex, unjust and undesirable tax structure of Pakistan. The government of Pakistan needs to attain fiscal sustainability by mobilising revenue and prudent spending. In this regard, increasing the tax-to-GDP with direct taxes by expanding the tax net to retailers, real estate, and agriculture. The importance of transitioning the informal sector towards the formal sector cannot be overstated. Moreover, structural and administrative reforms are required along with various tax policies. Nevertheless, rationalizing untargeted subsidies, austerity measures in spending, and reducing the losses of public sector enterprises through improved governance can assist in lowering the fiscal deficit to evade the harmful consequences of excessive and unjust taxes.