**Taxation: Blessing or Disguise**

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Taxation is a vital tool in developed and even developing countries to finance major government activities. It is a principal source for govt to fund its budget. According to the most recent estimates from the International Center of Tax Development, 50 to 80 per cent of the revenue of any country is generated through tax. It is being used to shape and construct the socio-economic policies and activities of the government. Income Tax, Sales Tax, Customs Duty and Federal Excise Duty are four major sources of tax generation in Pakistan. Many economists are of the view that “No country has been able to manage a high degree of development without substantial taxpayers.”

The tax rate in developed countries like China, Denmark and Germany is around 30 per cent while the tax rate in developing countries like Pakistan, Iran and India varies between 10 and 20 per cent. Taxation can promote economic growth by contributing to GDP, which has a ripple effect on the country’s economy by raising the living standards; job creation and making it possible for the government to finance investment in human capital, infrastructure, and provision of finances for its citizens and businesses. If it’s regulated on the four basic principles of fairness, certainty, convenience and efficiency, it can be very effective for economic growth and development. However, setting it up is a challenge, particularly in developing countries.

Another point to consider is that the tax system should be non-distortionary but, here many earners are paid in cash “off the records,” for example, income from agricultural earnings. It creates a big deep-rooted unfairness in the tax system that the ones documented in the tax net have to pay a high portion of their income in form of tax due to the nature of their jobs and the undocumented earners get away by paying a little or no tax.

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Taxation comes with its cons as well it creates a wave of inflation in the economy. Taxation should be one of the sources for government to generate revenue but not the only source because in that case, the rise in taxes will create price hikes and lead to overall hyperinflation in the economy. The government needs to focus on collecting its revenue from non-tax revenue sources, so the finances of the government don’t burden the masses. A recent example of the negative aspect of taxation is the imposition of super tax in the BUDGET-2022, which is predicted to not only further increase inflation but also retard the functioning of corporate and development sectors. Federation of Pakistan Chambers of Commerce and Industry (FPCCI) Acting Chairman Shabbir Mansha termed the decision to impose super tax “destructive” for industries.

“Industries are already burdened with gas, electricity, and high-interest rate, and this super tax will retard the development of the sector as well as overall economic development,” he added. He was of the view that companies would transfer the burden of the super tax onto the public, which would fuel inflation across the country.

Double Taxation has also been a major concern in this period of economic crisis as it is very difficult for the development and corporate sector to survive at 17 per cent GST.

FBR has collected net revenue of Rs 6,125 billion in the current fiscal year (July 21-June 22), which has exceeded the revised target by 25 billion and gross revenue increased drastically by 29 per cent. By looking at the data, the FBR achieved record taxes in the previous year, but still, there is no improvement in the condition of the economy. It is clear that the collected tax is not used for development purposes because if it was, the economy would have been in a different state today rather than being in a crisis.

Unfortunately, the tax target is not associated with growth and development but is a means to increase the GDP ratio and minimise the fiscal deficit. We achieve a high growth rate, but it causes the country to fall into a current account deficit like in the current scenario. The nature of the tax system in Pakistan is regressive, which causes an increase in income inequality, a greater burden on low-income individuals, and a decrease in money spent by low earners. They have to pay a high ratio of income in the form of tax-reducing the overall economic activity. Taxes on most consumer goods like sales, gas, and electricity are regressive. It can be reduced by broadening the tax base.

Other major reasons for the failure of taxation’s positive impact on the economy are administrative failures and huge levels of corruption. The money collected from the public does not seem to be used for public welfare purposes. There is a trust deficit among the taxpayers, which causes people to avoid taxes and creates tax distortions. Administrative failure is also one of the causes of failure as we lack the proper regulation of the tax money we are collecting. If the government’s tax spending mechanism is transparent, it will have the confidence of the people. The belief that the money they are giving is to be spent on them will encourage them to pay taxes.

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