

CONUNDRUM OF PAKISTAN'S TAX SECTOR: REINVIGORATING THE ECONOMY THROUGH TAX REFORMS

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Abstract

Tax collection is vital to maintain fiscal sustainability, and the effectiveness of the tax system contributes directly to the potency of a country's economy. According to a World Bank report, developing economies average 15% of GDP in tax collections, which is lower than that in advanced economies at around 30%. Pakistan's tax-to-GDP ratio is among the lowest, even within developing countries, at 9%. This low tax revenue is primarily because of structural deficiencies in Pakistan's tax system, including abundant indirect taxes, a narrow tax base, high tax rates for active taxpayers, and exemptions to several business sectors. These inadequacies in the tax system result in detrimental repercussions for Pakistan's economy. By applying the case study approach, this paper attempts to analyze the reforms adopted by countries, including Georgia, South Korea, and Ukraine, that resulted in the rejuvenation of their economies. Thus, by evaluating their successful reforms, this paper proposes recommendations to revamp Pakistan's tax system, including the enlargement of the tax net, abolition of tax exemptions to the elite class, and enforcement of a progressive tax system. The enforcement of these reforms will result in the amelioration of Pakistan's tax system and ensure the country's economic security.

Keywords: Tax System, Tax Reforms, Fiscal Sustainability, Indirect Taxes, Tax Base

Introduction

An effective tax system holds key importance for a country's economic development as it catalyzes fiscal sustainability. A common factor among the world's developed economies is their high tax-to-GDP ratio. However, this has not been the case for Pakistan as its tax revenue is among the lowest in the world,¹ currently standing at a meager 9%.² The failure to attain high tax revenue can be attributed to structural inadequacies in Pakistan's tax system. The tax system of Pakistan can be regarded as a regressive tax system that serves the interests of the affluent elite class and certain business sectors. This stifles the ability of tax authorities to increase tax revenue, which gravely impacts the overall economy of Pakistan and adds to the country's economic hardships. The ramifications of the flawed tax system for Pakistan's economic security can be identified in limited revenue at the government's disposal, making it increasingly reliant on bailout packages from the IMF and debt servicing from China, Saudi Arabia, and the UAE.

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Pakistan's government expenditure as % of GDP has constantly declined over the past few years, leaving the government incapable of ameliorating the education and health sectors.³ An exorbitant increase in the inflation rate has also greatly impacted the people's purchasing power and living standards. This poses a serious problem for Pakistan as the economic crisis, hastened by a substandard tax system, aggravates economic security concerns for the country. The need to rectify the situation and ameliorate the economic condition of Pakistan leads to several questions, including: What are the significant challenges to Pakistan's tax system? Why does Pakistan's tax system reflect deficiencies despite attempts at reforms? How successful international models serve as examples for tax reforms in Pakistan? To answer these questions, the case study approach is adopted as it covers both the quantitative and qualitative aspects that aid in understanding and explaining the phenomenon's process and outcome through complete observation and analysis of the related case studies. The considered case studies include Georgia, South Korea, and Ukraine. Therefore, this paper aims to ascertain applicable recommendations for tax reforms in Pakistan by using case studies of three developing economies and their strategies for increasing tax revenue and addressing economic security concerns in Pakistan.

Overview of Pakistan's Tax System

A state's ability to mobilize resources is crucial to its economic growth since it is an indicator that ascertains a state's power, capacity, and will to uplift the living standard of its people. A competent tax system empowers a government to promote growth, undertake public sector investments, and invest in its human capital. Reforming the tax sector can help alleviate reliance on aid and act as a catalyst for fiscal sustainability. A robust and equitable tax collection framework also ensures the state's capacity building while solidifying social bonds between governments and their citizens.

However, this does not appear to be the case in Pakistan, as it stands in the list of countries with the lowest tax-to-GDP ratio in the world.⁴ The current tax revenue of Pakistan is merely 9%. Pakistan's tax system is regarded as a regressive tax system that imposes all the burden on the impoverished section of the society. The structural deficiencies in Pakistan's tax system have prevented effective taxation of the affluent elite, enabling legalized tax evasion.⁵ This is a significant reason for the inconsequential tax revenue in Pakistan, as the moneyed class of the society bypasses its tax responsibilities. The tax regime's primary focus is indirect taxes, such as GST and withholding taxes. This reflects an inability to expand the tax base effectively, disproportionately burdening the middle and lower-income classes.

Successive governments have proved inefficient in enhancing the proportion of direct taxation in Pakistan. The approach of national and provincial governments has been to accumulate taxes indirectly, including value-added taxes,⁶ withholding taxes,⁷ import duties, and a plethora of taxes included in electricity, natural gas, and telephone bills, alongside levies on petroleum and electricity. According to the State Bank of Pakistan, between 2008 and 2021, Pakistan's federal government accumulated 36% to 39% of its tax revenue from direct taxes.⁸ This points to a palpable structural inadequacy in Pakistan's tax collection mechanism.

Due to the failure to expand the tax net and increase the number of active tax filers, more tax is imposed on the people and corporations already part of the tax net. This, in turn, disincentivizes the non-tax filers who see no benefit in becoming a part of the tax net. According to FBR's Active Taxpayers List, the number of active tax filers in Pakistan is 5.73 million, which is slightly above 2% of the entire population.⁹ The major portion of active tax filers is the salaried class, which pays double tax. Firstly, income tax is deducted from their salaries before they are even transferred into their accounts. Similarly, a selected number of businesses and corporations are part of the tax net, responsible for the major proportion of tax revenue in direct taxation. However, they are burdened with even more taxes, including soaring corporate taxes,¹⁰ currently at 29 percent,¹¹ and the newest in the list: a 10% super tax.¹² This greatly hinders the capacity of these businesses to perform to their fullest and enhance the export base while dissuading other companies from becoming a part of the tax net.

Pakistan's tax collection mechanism also faces administrative and technological impediments that have stifled the amelioration of tax revenue.¹³ Bureaucratic red tape culture, corruption, and obsolete institutional modus operandi have been the vanguard of these structural deficiencies. The implementation of the TARP project sponsored by the World Bank led to VAT collection responsibility being taken away from Customs and entrusted to the Inland Revenue Services (IRS). However, the sales tax growth rate dropped from 18% to 12% due to this decision, which was attempted to compensate for by an increase in the tax rate (GST) from 13% to 17% and later 18%.¹⁴ Further, the ineffective and plodding incorporation of technology has also been a precursor to the inadequate performance of the tax accumulation system. The failure to fully implement electronic invoice monitoring and link point-of-sale systems to the FBR's online platform has hindered tax revenue growth, negatively affecting Pakistan's economy.

Another weakness of Pakistan's tax system can be identified in the exemption to various sectors, including the agricultural, retail, and real estate sectors.¹⁵

While agriculture contributes to approximately one-fifth of Pakistan's GDP, it accounts for less than 1% of national tax revenue.¹⁶ The retail sector of Pakistan is responsible for a minuscule 3.9% contribution to the tax revenue despite accounting for a massive 18% of the GDP.¹⁷ Similarly, the real estate sector also enjoys enormous tax exemptions, which dastardly affects the country's tax revenue.¹⁸ This depicts the preferential treatment of these financial sectors as they are deemed absolved of their tax responsibilities. Such preferential treatment is resulting in deleterious implications for the country's economic sustainability, leading to an increased reliance on foreign aid and debt.

Regressive Tax Policies under Successive Administrations

Successive parliamentary administrations have demonstrated a lack of political will to enforce progressive taxation or abolish tax exemptions, perpetuating elite privileges and worsening the nation's economic challenges. As noted by sociologist Hamza Alavi, the entry of capitalist and feudal elites into Parliament has allowed them to dominate the legislative process.¹⁹ Similarly, the admission of real estate tycoons in the political spectrum also complicates the path toward remission of exemptions.²⁰ Certain political parties that have historically seemed to appease the trading and retail sector have shown reluctance to bring them into the tax net.²¹ This lack of will by the political class certainly impedes the prospects of the enlargement of the tax net and the eradication of unjustifiable tax exemptions.

This is why governments in Pakistan failed to elevate tax revenue, as their focus persisted on the salaried class and indirect taxation.²² The election manifesto of PML(N) in the 2024 general elections focused on economic growth, structural reforms, energy development, and infrastructure expansion.²³ PPP's electoral manifesto strongly emphasized social protection for the poor, including initiatives to combat hunger and poverty, safeguard the rights of minorities and other marginalized groups, and fortify the federation.²⁴ Similarly, the PTI manifesto's major themes were the rule of law, governance, justice, and accountability.²⁵ However, none of the manifestos expressed explicit intent to abolish exemptions to privileged sectors and the elite class. This is indicative of their previous tenures as successive governments of PPP, PML (N), and PTI since 2008 gave little attention to the promulgation of progressive taxation. The agricultural elite, real estate tycoons, and traders/retail sector continued to accrue profits whilst not being a part of the tax net.

The formation of the PTI government in 2018 under the leadership of Imran Khan alluded to bringing structural reforms to the tax system. Prime Minister Imran Khan appointed Shabbar Zaidi as the new Chairman of FBR to implement the tax reforms.

However, the systemic and structural impediments did not allow the PTI government to implement the tax reforms. As described by Shabbar Zaidi in his interview with Shahzeb Khanzada, the feudal elite pressurized the FBR with threats of destabilizing the government if the FBR were to go ahead with the plans of bringing the agricultural elite into the tax net.²⁶ The traders/retail sector used similar pressure tactics. They threatened to enforce strikes and shut down all businesses in response to FBR's initiative of digitalizing the economy and attempting to bring the traders/retail sector into the tax net. Real estate tycoons put pressure through lobbying, deterring the government from putting the said domain into the tax spectrum. The government of Shahbaz Sharif continued with similar policies – burdening the laymen with indirect taxation and industries already part of the tax net with further taxes, while exempting the other sectors to protect the vested interests of the elite class.²⁷

Tax System's Failure – Catalyst for Pakistan's Economic Plight

Deeply embedded deficiencies in Pakistan's tax system are directly responsible for aggravating the country's economic woes. The failure to elevate tax revenue severely impacts the ability of the country to successfully service its debt. Pakistan's current account deficit, which had shrunk from 1.0 percent of GDP in the fiscal year 2023 to 0.2 percent in the fiscal year 2024, is expected to widen again to 0.9 percent by the fiscal year 2025, according to the IMF.²⁸ Pakistan's external debt as % of GDP continued to rise in the last few years, currently at 37.30% as of 2023,²⁹ while its internal economy constantly plunged. This resulted in severe apprehensions in Pakistan about a possible default. Pakistan has become exorbitantly dependent on the IMF for bailout packages and on its allies, including China, Saudi Arabia, and the UAE, for debt restructuring. This has proven detrimental to the country's economic freedom and fiscal sustainability.

Other macroeconomic indicators, such as the Consumer Price Index (CPI), have also been greatly impacted as massive inflation in the country severely contributed to the economic plight of the masses. For years, the government relied on printing paper money as an easy resolution to the conundrum of fiscal deficit, as it proved ineffective in ameliorating tax revenue for government expenditures and debt servicing. This strategy provided temporary respite but resulted in soaring inflation that led to inimical repercussions for laymen. With greater autonomy entrusted to the State Bank of Pakistan under the SBP Amendment Bill 2021, the government no longer reserves the authority to dictate to the State Bank of Pakistan to print paper money as a leeway for its fiscal needs.³⁰ The closure of this avenue exacerbates the troubles of the government as it loses this crippled and flawed modus operandi attempting to put out a wildfire with a garden hose.

This situation exists wholly because successive governments failed to enact credible tax reform to ameliorate tax revenue, thus alleviating the economic troubles.

Due to limited tax revenue, the government lacks adequate public spending funds. Pakistan's government expenditure as % of GDP stands at 19.95% as of 2022, according to the International Monetary Fund (IMF). This is far less than other countries like China at 33.4%, Saudi Arabia at 28.23%, France at 58.34%, and even compared to India, which stands at 28.62%.³¹ This is primarily because the government cannot accumulate enough revenue to ensure the spending on public projects and fulfill the needs of its masses, including providing quality health care and education to all its citizens. This situation is resulting in the debilitation of the education sector in Pakistan, which further exacerbates the economic distress as rising illiteracy contributes to the upsurge in unemployment, posing an additional strain on the economy. According to World Bank data, Government Expenditure on Education as % of GDP for Pakistan is 1.97% (as of 2022)³² while for India it is 4.63% (as of 2021).³³ The shortfall in revenue collection can be deemed responsible for Pakistan lagging behind India. The government cannot wholly implement social services programs based on the social democratic state pattern, as it lacks sufficient funds to implement such initiatives. This perpetuates the class divide in the country as the rich continue to get richer while the impoverished class suffers in distress.

Economic Rejuvenation through Tax Reforms – Best Practices around the World

An overview of the advanced developed economies of Europe reveals that those countries with high GDPs, HDI, and living standards also have high tax revenue. However, these countries have a well-established industrial base spanning centuries. They received US aid through the Marshall Plan after World War II, contributing significantly to their economic progress and development. There are, however, several developing countries that have turned their economies around primarily by bringing reforms to their tax system. These countries include Georgia, Jamaica, South Korea, and Ukraine, which boosted their tax revenue through concrete reform. This, in turn, positively impacted their overall economic growth and development, as evidenced by several economic indicators.

a. Case Study of Georgia

Georgia serves as an example of a prosperous developing country that effectively reformed its tax collection system. The case study is best suited for developing economies as it guides countries with a similar fate to that of Georgia.

The success story of Georgian tax reforms can be traced back to the ‘Rose Revolution’, which challenged existing patterns and set forth the need for economic reforms.³⁴ A six-member group under the leadership of Niko Orvelashvili drafted a conceptual framework that mainly targeted three sectors: legality, free entrepreneurship, and efficiency. This six-member group put forth the following blueprint for the reforms³⁵:

- Simplification of the tax framework will drastically reduce the number of taxes and tax rates, nearly halving the overall tax burden. This would make tax payments easier while reducing the level of corruption.
- The abolition of double taxation, government misuse of tax laws, and any privileges and special regulations for industries or businesses.
- The abolition of special taxes (social, road, and environmental);
- Tax laws should follow the human rights guarantees outlined in Georgia's constitution.
- In tax disputes, the government should bear the burden of proof rather than the taxpayer, as is the case in other issues.
- Clear explanation of tax regulations.
- Tax regulations ought to be unambiguous, succinct, logical, and predictable.

Georgia implemented the tax reforms in multiple phases. The first phase of reforms targeted the negative corruption trends, such as ‘Zero tolerance for Corruption’ for all taxpayers by imposing strict penalties. The second set of reforms endeavored to purify the institutions and their employees from corrupt practices. The third set of reforms was subject-oriented, which focused on simplifying the tax laws and increasing the tax net.³⁶ The last set of reforms was based on strengthening the administrative process to minimize the chances of tax avoidance. These reforms produced outstanding results, such as an increase in tax revenue that allowed the government to raise the tax-to-GDP ratio from 12% in 2003 to 21.7% as of 2021;³⁷ a diminished tax burden (ranked fourth in Forbes' ranking of countries with low tax burden for business); a quick rise in the World Bank's rankings of countries with ease of doing business; an increase in business start-ups; increased accountability of tax administrators and taxpayers and a sustained decrease in corruption.

b. Case Study of South Korea

According to a 2017 report, the South Korean tax system consists of two basic taxes, national and local taxes. The national taxes consist of internal taxes, customs duties, and earmarked duties; however, local taxes consist primarily of provincial and city/county taxes.

Currently, South Korea has 29 taxes, of which 15 are national. Value Added Tax (VAT) is the most crucial national tax in generating revenue for the country. VAT generates more than 20% of total tax revenue in South Korea. Other taxes that add to the revenue are income tax, corporate tax, and customs duties. Additionally, local taxes contribute up to 10% of total tax revenue.³⁸ Personal Income Tax plays a minor role in the tax-to-GDP ratio as it contributes up to 15.3% in revenue and 3.7% in GDP. Corporate income tax and VAT (introduced in 1976, and the rate has been 10% since then) are significant sources of revenue and are mainly applied to large corporations. The Corporate Income Tax base is large because it is easy to monitor capital-intensive firms. Earmarked tax makes up 17.3% of revenue and 3.5% of GDP; transaction taxes contribute 8% to tax revenue.

South Korea also implemented tax reforms in various phases, which helped the country elevate its tax revenue to 16.8% as of 2021.³⁹ This increase in the tax-to-GDP ratio had a discernible impact on the economic growth and development of South Korea. From 1960 to the 1970s, substantial tax exemptions were provided to encourage the working capacity of the workforce, to receive further investments, and to increase exports. The primary mode of revenue was generated through indirect taxes. Additionally, VAT at 10% was introduced in 1976. Several tax exemptions were introduced from 1998 to 2002 to boost the state's economic activities and facilitate the reorganization of the corporate and financial sectors by encouraging foreign direct investment.⁴⁰ The main tax reforms during this period were focused on reducing the burden of taxes on the middle class and supporting Small and Medium Enterprises (SMEs) through tax exemptions.

From 2003 to 2008, the previous tax policy was maintained with fewer taxes but increased taxation rates rather than a specific tax cut policy. The government of Roh Moo-Hyun increased the tax rates on real estate. Policies aimed at tax cuts were presented from 2008 to 2012, in which the tax rates on individual income and corporate income were lowered, considering the reforms offered by the previous governments. Corporate income tax was reduced by 3%, and Real Estate Holding Tax was suspended. The previous tax policies were maintained from 2013 to 2017, except that the tax reduction on income was reduced, and the tax base was broadened.⁴¹ A strict process and measures were required to identify and manage the information to increase tax revenue; thus, the E-Tax administration reform was adopted to make the tax administration efficient and transparent.

Numerous tax reforms were also introduced to successfully restructure South Korea's tax system. These reforms included:

- **1997 – Tax Integrated System (TIS).** Integrating tax information in an online database improved the convenience of tax payments.
- **1999 – Income deduction for Credit Card Usage.** The number of registered taxpayers rose, and tax revenue increased, resulting from widespread credit card usage.
- **2001 – Home Tax Service (HTS).** Enables taxpayers to pay taxes online; its primary purpose is to improve the convenience of tax payment.
- **2003 – Tax Information Management System (TIMS).** A decision-making system for tax officials to manage the tax base and tax audits while allowing mass information integration.
- **2005 – Cash Receipt System.** The cash receipt system broadened the tax base. It created a transaction when the cash receipt card was used, providing the customer's name, number, and resident ID.
- **2006 – Year-end Tax Settlement Simplifying Service.** Previously, employees contacted relevant authorities to obtain their annual payment data. Subsequently, employees could download their year-end tax documents and materials.
- **2010 – E-Tax Invoice system.** Electronic tax invoices could be easily recorded to avoid tax evasion or false tax invoices.⁴²
- **2015 – Neo Tax Integrated System.** An “E-library” was introduced to store all the data, ensuring protection against cyberattacks and providing information on taxation and taxpayers.

c. Case Study of Ukraine

Ukraine has brought significant transformations in its tax system over the years and is regarded as having one of the best tax systems amongst developing countries by the IMF. Ukraine has seen many challenges to its economy, which have caused severe setbacks, including the 2008 financial crisis, the 2014 Russian annexation of Crimea, and the ongoing war with Russia. In the past, Ukraine managed to revive its economy after each crisis. Its comprehensive tax collection system played a vital role in these revivals. Instead of imposing a vast number of taxes on its population, Ukraine reduced the number of taxes, kept the tax rate moderate, and increased the number of tax filers, bringing all sources of income into the tax net. Ukraine also took significant steps toward improving its administrative structure and capacity building, which helped Ukraine increase its

tax revenue from 11.7% in 2001 to 19.1% in 2021, according to World Bank Data.⁴³ To ascertain the amelioration of its tax-to-GDP ratio, Ukraine implemented several reforms, which are discussed as follows:

- a. **Proportional Tax Structure, Income tax, and '5 blocs Tax register system'**. Social justice is essential for a society to progress, and a regressive tax system burdens impoverished sections of society. To strengthen Ukraine's tax collection system, the government introduced a proportional tax structure whereby all individuals and all sources of income are taxed equally at a rate of 18%.⁴⁴ Personal Income Tax (PIT) is vital to Ukraine's tax structure. To ensure PIT compliance, fiscal authorities in Ukraine maintain a state register of individual taxpayers, including an individual's revenue sources, taxable items, accrued and received revenues, information on tax deduction, and accrued and paid taxes. In this way, the authorities maintain all the data regarding an individual's revenue, kind of revenue, property, and information from tax agents, including banks, insurance companies, and notarial agencies, which ensures PIT compliance.
- b. **Reduced Corporate Tax**. The tax, standing at 18% in 2022, has seen an overall decline. This decrease in corporate tax increased the confidence of investors and the corporate sector in expanding their activities in Ukraine. Business Confidence in Ukraine rose (until the start of the Russia-Ukraine war), leading to an increase in business activities, exports, and a decline in the inflation rate.
- c. **Electronic administration of VAT**. Value Added Tax (VAT) plays a vital role in Ukraine's tax revenue generation, which is currently levied at 20%. To prevent VAT fraud and improve VAT refund practices, the government introduced the electronic administration of VAT in 2015. This led to the abolition of paper tax invoices by 2015, with all tax invoices being recorded in a Unified Register of Tax Invoices.⁴⁵
- d. **Reforms in Progress**. Several reforms are currently in the implementation stage to curb the grey economy, eliminate the factor of 'envelop salary', and bring all untaxed revenue into the tax domain. These include digital connectivity between tax agents and fiscal authorities. Tax agents will be obliged to share taxpayers' information with budgetary authorities, similar to Western European countries.⁴⁶ Fiscal authorities will utilize ICT for this

purpose, and any expenditure above 50,000 UAH would have to be cashless to keep all spending within the budgetary authorities' radar.

If an individual's expenses exceed those acquired from income sources, it would be considered untaxed income and a part of the grey economy. Additionally, when taxpayers file their tax returns, the information from the tax return will automatically be compared with the data amassed in the electronic taxpayers' database. These reforms would be crucial to curb the grey economy.

Recommendations - Addressing Implementation in Pakistan's Socio-Political Landscape

Proposed Progressive Tax System

Pakistan's deplorable economic condition demands concrete measures to rectify the situation and bring the country out of this economic slump, which poses a palpable non-traditional security threat to the country. Pakistan has the potential to be among the world's leading economies if its structural vulnerabilities are resolved and its human capital is meticulously utilized. To ensure that, Pakistan needs to bring significant changes to its tax structure to enhance tax compliance and increase tax revenue. It must be realized that reforms in the tax system are the key to the resurgence of Pakistan's economy. Pakistan can learn through the experiences of the developing countries that successfully rejuvenated their economies through tax reforms, including Georgia, South Korea, and Ukraine.

Like the countries mentioned above that successfully revolutionized their tax structure, a progressive tax system could be phased in by gradually increasing tax rates for higher-income brackets while offering incentives for middle-income earners, such as educational and healthcare expenses deductions. The tax revenue of Pakistan cannot be elevated unless its affluent elite class is brought into the tax net. Pakistan should reduce the number of taxes and substitute indirect taxes, which burden the middle and lower classes, with direct taxes.⁴⁷ These direct taxes would ensure all tax evaders are brought into the tax net. Further, Pakistan needs to increase tax rates on the moneyed upper class to increase its tax revenue.⁴⁸ The tax rate for upper tax brackets should be significantly higher to implement the progressive tax framework in its true spirit. Moreover, tax exemptions to particular sectors, including the agriculture sector, the retail sector, and the real estate sector, should be abolished.⁴⁹ All sectors must be brought into the tax net,

as Pakistan cannot be put on the path of development and prosperity unless preferential treatment to these sectors is discarded.

Corporate tax in Pakistan should be reduced to increase business confidence and business activities. Instead, those businesses and corporations outside the tax net should be brought into the tax base.⁵⁰

Addressing Bureaucratic Resistance

To increase the tax-to-GDP ratio and reduce corruption in tax affairs, Pakistan must undertake concrete steps to ameliorate its tax framework and ensure capacity building for long-term sustainability. [vi] Given entrenched bureaucratic challenges, reforms must include training programs for tax officials and the introduction of performance-based incentives to combat inefficiency and corruption. [v] These broader institutional reforms encompass revamping tax collection agencies, optimizing processes, and increasing transparency.⁵¹ This will allow government officials to effectively target tax evaders and boost compliance by setting up specialized divisions for high-risk sectors and using advanced technologies for data analytics. Enhancing coordination between federal and provincial tax authorities will help mitigate policy overlaps and combat tax evasion. Furthermore, encouraging an accountable, meritocratic, and professional growth culture inside tax institutions will draw qualified staff, assuring efficient tax administration.

Promoting collaboration and knowledge exchange with international organizations can provide essential insights into the effective worldwide implementation of tax reforms. Regular performance reviews and rewards should be ensured for tax officers who achieve their targets, help promote an ethical workplace culture, and discourage corrupt practices. Pakistan's legislative bodies should also play their role by enacting laws that ensure maximum punishment for nonadherence to tax obligations.⁵² Pakistan can develop a potent tax collection framework by focusing on institutional reforms, capacity building, and robust legislation.⁵³

Digitalization

Pakistan must pursue the digitalization of its tax structure to increase the number of tax filers while easing the tax filing procedure.⁵⁴ To ensure this system's success, partnerships with banks and fintech companies could facilitate the widespread adoption of digital payment platforms, especially in rural areas. This will assist the government in curbing the grey economy. The government should also ensure digital connectivity between the tax agents, including banks and notaries, and the fiscal authorities, whereby the tax agents would be obliged to share the information of the

taxpayers with the fiscal authorities. In this way, the fiscal authorities would have complete data on taxpayers' revenues and expenditures.

This will not only ensure PIT compliance but will also help curb the grey economy, putting the country on the path of economic growth and development.

Conclusion

This paper examines Pakistan's tax system and its chronic accounts of structural inadequacies proliferated by the government's failure to expand the tax net and introduce measures to obviate the disparity in the tax collection methods. This has not only led to limited revenue generation and increased fiscal deficit but has also forced the state to be highly dependent on the IMF and other countries for financial bailouts. The prime issue identified for the deficiencies in the tax system of Pakistan alludes to Pakistan's ineffective tax collection mechanisms, low tax compliance, a narrow tax base, bureaucratic impediments, and a lack of will by the ruling elite to enact effective tax reforms. The regressive tax system serves the elite section of society while forcing the other section to be tangled in the intricacies of debt and inflation. This analysis suggests that Pakistan could improve and revitalize its tax system by adopting the successful practices of countries such as Georgia, South Korea, and Ukraine. The research recommends that by reducing the number of taxes and replacing indirect taxes with direct taxes, the exhaustive burden on the lower and middle classes can be reduced. Business Sectors outside of the tax net should be brought within the tax net. Digitalization of tax structure to increase tax filers is also an essential determinant of the inevitable tax reforms in the country. For sustainable tax reforms, policies need to be based on transparency and equity to elevate tax revenue and ascertain economic growth.

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