 DOI: *https://doij.org/10.10000/IJLMH.111899*

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 4 | Issue 5

2021

The Main Concerns of the Pakistan's Taxation Policy and Effectiveness of the Legal Reforms Introduced by the Government from Independence till 2020

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ABSTRACT

Pakistan is one of the developing countries which gained independence from the British Colonialism on 14th August, 1947. After independence, the country inter alia, faced a problem of revenue collection for running the business of the State. To meter out this requirement, the State adopted a mutatis mutandis Taxation System already existing in the Sub-Continent introduced by the British Rule. The concept of tax was initiated with a view to generate government revenue. In course of time it has been utilized for various purposes. Since inception of the Country, the State went through Democratic Governments and Military Regimes. Both these types of Governments introduced many policies, reforms and amnesty schemes in different times to acquire the desired results. The aim of this paper is to trace out the main concerns of Pakistan's policies towards Taxation and the history of variety of Tax Laws imposed followed by Amendments by the State from time to time. This paper also focuses on ascertaining the Tax Policies, Tax Reforms and Amnesty Schemes coupled with impact of those measures from 1947 to date. The State at the time of its emergence promulgated the Income Tax Act, 1922 with necessary amendments and Central Board of Revenue already set up under the Central Board of Revenue Act, 1924. Thereafter numerous committees were formed for enhancement of Tax Net and increase number tax payers. From this very first Act of 1922 till the last Ordinance implemented in 2001 and Rules Framed in 2002, a large number of committees, ordinances and acts have been brought to the field. This article intends to cover all the laws, reforms and amnesties by the Government with reference to the main concerns of Pakistan's Taxation Policy.

Keywords: *Amnesty; Concerns; History; Laws; Main; Pakistan; Policy; Reforms; Scheme; Tax.*

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I. INTRODUCTION

A policy is a method of action from amongst alternatives in the light of given circumstances and Taxation Policies of a country having extraordinary role in sustainable economic development and employment growth always make a great contribution towards economy of the country. As per definition of policy posed by Webster Dictionary "*Policy is a definite course or method of action selected (by government institution, group of individual) from amongst alternatives and in the light of given conditions to guide and usually to determine present and future decisions*" (Webster, 2013). Policies may also be used to create laws and laws may provide for creation of policies with reference to certain issues faced by a country. Policies are also introduced by a country to get desired solution of any particular problem or issue. A policy is also devised to achieve the desired outcome. A policy may be an interaction between the Government and the public. In a democratic state, all the institutions are to comply with certain commands and instructions for the benefits of the Government and Masses as well and failure to carry out those instructions or commands brings the delinquent under penalty.

A Tax Policy has macroeconomic and microeconomic aspects. The macroeconomic aspects concern the overall quantity of taxes to collect which can adversely affect the level of economic activities. This is one component of fiscal policy. The microeconomic aspect concerns the issues of fairness (whom to taxes) and allocative efficiency (i.e. which taxes will have how much of a distorting effect on the amounts of various types of economic activity).

A government devises plans for development of country which require huge amounts of money for implementation of these schemes. The government for generating revenue levies taxes of different kinds by enactment of laws and formation of policies for collection of those taxes.

II. MAIN CONCERN OF PAKISTAN'S TAXATION POLICY

Admittedly, Pakistan is a not a much developed country having poor GDP as compared to those with the well developed countries. This is also a dilemma that the developing countries like Pakistan could not implement collateral Tax Policies for generation of revenue required to mete out the expenditures required to develop the country and its masses. A Government requires a large amount of revenue to cope with the prevailing expenditures and work for betterment of infrastructure and equivalence of disbursements and an efficacious Tax System plays a pivotal role in revenue generation. So far as concern of Pakistan Taxation Policy is concerned, it was rightly stated by Gordon Li that "*Tax Policies in practice vary dramatically among the poorest and the richest countries. In order to increase revenue, low income countries have historically supported more international trade taxes, while richer countries use more taxes on*

consumption and revenues" (McNabb, 2014). This statement comes true to the Tax Policy of Pakistan which went through many changes with the passage of time and change of priorities of every government. This fact is universally acknowledged that revenue collected through taxes makes a great contribution to the economy of the country. It was observed by Nicholas Fiore that "*A Tax System should enable the government to determine how much tax revenue it likely will collect and when __ that is the system should have some level of predictability and reliability*" (FIORE, 2000). Pakistan, by now, has not culminated its tax collection system. Since its inception Pakistan has to face three major problems i.e. increase revenue, lessen poverty and remove inequality among its citizens. Every Government whether democratic or Coup d' etat enacted different laws, issued ordinances, devised various schemes and policies to cope with these persistent issues but most of those could not borne fruit as per expectations of the Ruling Authority for maximizing GDP of the country by virtue of numerous prevalent circumstances at that peculiar time. The Pakistan Government generates revenue by Taxation, Domestic Borrowing, Foreign Debit/Loan/Grants, Privatization or sale of State resources and income from State owned entitles. In this way, the taxation is a momentous source of revenue generating and tax collecting policy of the country plays vital role in GDP of the country.

"The emphasis of Pakistan's tax policy has mostly been on revenue collection through indirect taxes which stunts economic growth, burdens business by adding to their operation costs, discouraging compliance and encourage evasion etc. (Newspaper, 2020)". If tax is increased there will be an increase in the withdrawals from the economy, expenditures and national income will fall. OECD in its report has observed that "*Taxes are about values as much as they are about economic theory and policy designs*" (TOOLKIT, 2013).

At present, the Pakistan Tax Policy is devoid of widespread evasion and inadequate tax collection due to certain factors including vital tax infrastructure, complicated tax regimes and lack of procedure as to estimate the potential income of taxpayers. Obviously, Pakistan is a developing country and less collection of requisite taxes compels the governments to take loans which lead not only to inflation but also depreciation in currency. In order to overcome inability of the government to diagnose the virtual taxable incomes of taxpayers and bring the non-payers into tax net, a Withholding Tax (deducted at the source) was implemented by the Government which makes somewhat contribution towards the economy of the country.

Pakistan like other developing countries faces great challenges to set up an efficient tax system. Tax changes in Pakistan occur on account of vested political interest, agricultural lobby, vested economic interests, industrial Cartels and alliances, pressure groups, party funding and derailment of democracy. Achieving targets of both tax and non tax has always been

challenging due to disruption in economic activities. During the Financial Year 2019, total tax collection was 11.8% to the ratio of GDP wherein 10.1% taxation was collected by the Federal Board of Revenue which is attributed to slow economic growth, less tax rate on major petroleum products and suspension of withholding tax collection on mobile top-ups.

The main concern of the Pakistan Tax Policy, prima facie, appears to generate maximum revenue through taxes, gather foreign remittances and develop industrial sector for which the present Government is constantly changing its police viz. a viz. Taxation in the country. Our Government is putting environmental taxes on the back burner for the time being, but these are also critical for internalization of external costs related to health, climate and the environment. Besides addressing the negative impact on economic growth, we also need to consider equity; or the equity and efficiency together. Greater dependence on some taxes can reduce overall progressivity of the tax system (for example trade taxes). Therefore the fundamental and overarching question would be: how to move towards a tax design with shifts in the tax mix with minimal negative consequences on equity yet having desired growth.

Commenting upon the Pakistan Tax Policy Nasir Iqbal and Mahmood Khalid observed that "*Pakistan's government, on the one hand, is working hard to increase tax revenue to overcome budget deficit and finance fiscal needs. Official data (Economic Survey of Pakistan 2018-19) predicts total tax revenue will increase from 9.1% of GDP in FY 2009 to 13.9% in FY 2019 (budget estimates). A possible composition shows that 40% tax revenue is generated from direct taxes while 60% is generated from indirect taxes. On the other hand, empirical literature has documented a negative impact of taxes, especially if taken as % of GDP, on economic activity. This implies that a simple tax increase to finance expenditures is not useful to promote economic growth or development. This would be particularly true if there are fissures in the economy and it faces a myriad of structural challenges. These challenges range from low productivity and economic growth, weak industrial base to rising poverty and inequality, stagnant exports and above all to climate change*" (Khalid, 2020).

The last but not the least, recent Covid-19 Worldwide Pandemic also prevailed upon, inter alia, some changes in Tax Policy of Pakistan and the Prime Minister of Pakistan in post pandemic Covid-19 scenario took a great initiative regarding construction sector wherein a particular relief for the developers and builders has been introduced by the Government. Recently, amendments regarding provision of relief to the Real Estate and Construction Sector have been made too. This fact portrays that the development and revival of Real Estate and Construction Sector has become another concern of tax policy of Pakistan. The Prime Minister of Pakistan announced an incentive package on April 3, 2020 for the Construction Sector aimed

to increase employment opportunities in the country in the wake of Corona-virus (COVID-19) outbreak. "*The incentive package is envisaged to generate employment for the under-privileged segment of the society in these challenging times besides stimulating the economic activity in other allied industries of the Construction Sector* (Co., 2021)".

III. LEGAL POLICIES AND REFORMS INTRODUCED BY THE GOVERNMENT

Having emerged Pakistan on the map of the world as a new state it faced, inter alia, problems of revenue generation because the newly created state had to find its feet. At that time, there were no ostensible sources of income for a new State except imposition of taxes. For proper and adequate Tax Collection a mechanism was need of the hour. So, keeping in view this scenario and to cover the lacunae of revenue generation, the then Government of Pakistan adopted and implemented the Income Tax Act of 1922 which was operative in the Sub-Continent prior to partition. The Act was promulgated on the recommendations of the All India Committee. This Act laid down the outright procedure of assessment and affixation of rates according to the requirements of the Government and provisions were given effect to the whole of Pakistan except some specified areas.

(A) Setting Up Central Board of Revenue

The Central Board of Revenue (CBR) was created on April 01, 1924 through enactment of the Central Board of Revenue Act, 1924. "*In 1944, a full-fledged Revenue Division was created under the Ministry of Finance* (Revenue, 2021)".

(B) First Inquiry Committee

After few years of the implementation of the Income Tax Act of 1922, the country realized that this Act is not up to date and requires some amendments to increase Tax Collection and Generate Revenue. That's why in 1958 the very first Committee consisting of the Officials and Representatives of Trade and Commerce known as "Taxation Inquiry Committee" was introduced. This Inquiry Committee, time to time, made many recommendations out of those some were given due consideration by leading to amendment in the Income Tax Act, 1922 prevalent in Pakistan.

(C) Super Tax

In the beginning, a certain amount to tax referred to as "Super Tax" was imposed on the incomes of all the persons in Pakistan but it was later abolished until RATE SLAB as a percentage of Income was imposed in 1959. This development was a result of recommendations made by taxation inquiry committee.

(D) Change in Financial Year

Under the Income Tax Ordinance, 1922 imposed in Pakistan immediately after its inception, the financial year was from 1st of April to 31st March of every year but through an amendment the tenure of a financial year was changed and new financial was laid to be from 1st July to 30th June of every year.

(E) Income Tax Committee

The Income Tax Act 1922 contained a patchy procedure and it was proposed by the Central Board of Revenue that this procedure should be made simplified. For this said purpose, in 1961, the Income Tax Committee was constituted that made several recommendations with regard to easiness and convenience of the procedure as envisaged in the Income Tax Act of 1922.

(F) Self Assessment Scheme

As per provisions of Income Tax Act 1922, there was an Assessment Officer for assessment of income a Taxpayer chargeable to tax but under the recommendations of Income Tax Committee, the universally acceptable Self Assessment Scheme was introduced in 1965 through amendment in the Income Tax Act, 1922.

(G) Income Tax Ordinance 1979

Owing to Exuberant amendments introduced in the Act of 1922 especially on evasion of tax, application of the procedure became difficult for the Revenue Authority and it was recommended to make a fresh Act. Following this recommendation Income Tax Ordinance 1979 was introduced. Interestingly yet all basis concepts remained the same as settled in Income Tax Act 1922. Several surveys were conducted to broaden the tax base and also several Tax Amnesty Schemes were offered to people to legalize tax evaded black money.

(H) National Tax Reforms Commission

The National Tax Reforms Commission was introduced by the Government in the year 1985 with a mission to improve the existing law structure. Commission consisting of Members of Parliament, Bureaucrats and Industrialist had agenda to introduce tax reforms in the existing procedure inter-alia as follow:

- Review and evaluate the existing tax structure to pin out hardships and loopholes
- Plan of action to broaden the tax base
- Recommend restricting in tax system
- Recommendation on integrated tax system basis on the above point

- Application of tax on luxury items and agricultural income.
- Suggestion on stopping leakage in tax revenue etc.

(I) Income Tax Ordinance 2001

After submission of recommendations by the National Tax Reforms Commission, need for formulation of new procedural system of taxation in the country came up because both the Income Tax Act 1922 and Income Tax Ordinance 1979 could not serve the purpose accurately as per requirements of the time. This factor led to the promulgation of the Income Tax Ordinance 2001 on 15.06.2002 having effect in the whole of Pakistan. About this Ordinance of 2001 which repealed the time-tested Income Tax Ordinance, 1979 after twenty-two (22) years when it attained acceptability and stability after authentic judicial pronouncements, it was published that "*this Ordinance was promulgated on behest of the International Monetary Fund (IMF)* (Bukhari, 2017)"

(J) Income Tax Rules 2002

Under Section 237 of the Income Tax Ordinance, 2001 the Board was empowered to make rules for carrying out the purposes of the Ordinance. So, the Central Board of Revenue, immediately after the promulgation of the Income Tax Ordinance 2001 formulated and enacted rules for running the business of Income Tax Ordinance, 2001 on 01.06.2002.

(K) Tax Administration Reforms Program

With the assistance of the International Monetary Fund, the Pakistan Government has initiated a Reforms Program on Administration of Tax in the country. In the wake of this Reforms Program the following changes have been introduced in the Administration of Tax:

- 3 Large Tax Payer Units (LTU) at Karachi, Lahore and Islamabad
- Medium Tax Payer Units have been converted into Regional Tax Offices (RTO)
- 53 Taxpayer Facilitation Centers were planned to be established

(L) Establishment of Federal Board of Revenue (FBR)

The Central Board of Revenue (CBR) created on April 01, 1924 remained in force till 31st August, 1960 but afterwards on recommendations of the Administrative Re-Organization Committee FBR was made an attached department of the Ministry of Finance. *In 1974, further changes were made to streamline the organization and its functions. Consequently, the post of Chairman FBR was created with the status of ex-officio Additional Secretary and Secretary Finance was relieved of his duties as ex-officio Chairman of the FBR. In order to remove*

impediments in the exercise of administrative powers of a Secretary to the Government and effective formulation and implementation of fiscal policy measures, the status of FBR as a Revenue Division was restored under the Ministry of Finance on October 22, 1991. However, the Revenue Division was abolished in January 1995, and FBR reverted back to the pre-1991 position. The Revenue Division continues to exist since from December 01, 1998. By the enactment of FBR Act 2007 in July 2007 the Central Board of Revenue has now become Federal Board of Revenue (Revenue, 2021).

(M) Tax Reforms Commission

In September, 2014 the then Federal Minister of Finance with a view to improve taxation system in the country constituted a Commission commonly named as Tax Reforms Commission headed by Maqsood Naqvi. The main tasks for consideration before the commission were as follows:

- Review and rationalization of direct and indirect taxes
- Customs tariff rationalization
- Review of autonomy and administrative structure of FBR
- Creation of boarder force to tackle smuggling (Tribune, 2014)"

(O) Broadening of Tax Base Committee

In May, 2015 the then Federal Minister of Finance constituted a high-powered Broadening of Tax Base Committee. With regard to this Tax Base Committee Shernawaz Akhtar portrayed that "*the prime purpose of the committee was to suggest measures and increase the tax payers by bring more people into tax net and double the tax collection within the next two* years (Akhtar, 2015)".

(P) Tax Amnesty Schemes

Pakistan has been suffering from shortage of revenue and less tax collection since long and one of the reasons for this deficiency is undeclared assets/incomes or black money. In this backdrop, the Government of Pakistan in 2017 announced a Tax Amnesty Scheme of Real Estate Sector and in 2018 once again the Prime Minister of Pakistan introduced Tax Amnesty Schemes allowing legalization of undeclared assets/incomes and whitening of black money with perspective of increase in Returns Filling and Tax collection.

IV. POST COVID-19 TAX RELIEF

There is no denying the fact that recent Corona-virus (COVID-19) pandemic outbreak on one hand damaged even big and staunch economies of the world and on the other hand affected the

social status of the amasses. The same is the case with our ever fluctuating economy and populace of the country. In this backdrop, on 23rd August, 2020 the Federal Board of Revenue exempted taxes on import of oxygen gas; oxygen cylinders and cryogenic tanks for a period of three (03) months. On June 30, 2020 the Federal Board of Revenue, in its Finance Act 2020, added the Prime Minister's Covid-19 Pandemic Relief Fund 2020 to its Exemption list declaring any donation, subject to conditions, made to the fund exempted from tax.

During implementation of lockdown in first wave of Covid-19 pandemic in Pakistan, the poor and the daily wagers were the most sufferers by this pandemic. So, keeping in view the sufferings of the laymen the government of Pakistan, on 30th March, 2020 allowed reduction in various taxes on food items as below:

- *Rate of advance tax on the import of different food items was reduced to 0% from 2%;*
- *Individuals and associations of persons providing basic food items to Govt. owned departmental stores without a brand name will pay 1.5% withholding tax instead of 4.5%; and*
- *Additional customs duty (ACD) at 2% on soya bean oil, canola oil, palm oil and sunflower oil (as well as oil seeds) has also been* exempted (KMPG, 2020).

V. SPECIAL INCENTIVE PACKAGES FOR CONSTRUCTION INDUSTRY

Consequent upon the loss caused by the Covid-19 Pandemic not only to the Economy of the Country but also to lives of its population, on 30th June, 2020 the Government of Pakistan while moving towards uplifting lockdown during first phase of Covid-19, with intention to provide some relief to the daily wagers in post Covid-19 pandemic scenario, handed down a special incentive package for construction industry which is considered to be a source of providing livelihood to the Daily Wagers. *This Incentive Package mainly dealt with the following factors:*

- *The construction sector declared as an 'industrial undertaking' through suitable amendment in the Ordinance. Consequently, the sector is now entitled to seek exemption from advance tax otherwise collectible on import of machinery.*
- *Introduction of a fixed rate tax regime effective from Tax Year 2020 for builders and developers. The scheme is optional and covers 'new projects' (that start after 17 April 2020 but before 31 December 2020) to be completed by 30 September 2022; and 'existing projects' also to be completed by the said date.*

- *Immunity from probe regarding source of investment with respect to amount invested as capital in a building or land subject to certain conditions, including first purchaser of such building or land with certain conditions.*
- *Exemption from withholding tax obligations on purchase of building material except steel and cement; and on services of plumbing, electrification, shuttering and allied works obtained from non-corporate service providers.*
- *Exemption on dividend income received from a company being a builder or a developer out of the profits and gains derived from a project covered under certain conditions.*
- *Low-cost projects developed or approved by Naya Pakistan Housing and Development Authority (NAPHDA) or under the Ehsaas program, the tax rates levied will be reduced by 90%.*
- *The Act has introduced general reduction in capital gains tax leviable on sale of immoveable property* (KMPG, 2020).

VI. CONSTITUTIONAL PROVISIONS REGARDING TAXATION IN PAKISTAN:

After independence, besides adoption of Government of Indian Act 1935 mutatis mutandis, the Law Makers gave three constitutions to its people viz. Constitution of 1956, Constitution of 1962 and the last one Constitution of 1973 which is now in existence and force. As discussed earlier, immediately after partition the Income Tax Act 1922 was adopted by the newly established State. Thereafter in the first framed constitution of the country viz. The constitution of Pakistan 1956 under Article 60 of this Constitution empowered the then Parliament to levy any tax. The said article is states that "*No tax shall be levied for the purposes of the Federation except by or under the authority of an act of Parliament* (The Constitution of Pakistan, 1956)"

The second constitution of the country was enshrined in 1962 during a military regime which provided a single legislative list under 3rd Schedule of the Constitution. "*Over and above the legislative list, under Article 131(2) special powers were vested in the central legislature to legislate upon matters of national importance. The taxation power of the federation was clearly provided under that List. All residuary powers were vested in the* provinces (Advocate, 2020)".

Under article 7 of the Constitution of the Islamic Republic of Pakistan State has been defined as the Federal, Provincial or Local Government or such other authority empowered by law to impose any tax or cess in the words that "*In this Part, unless the context otherwise requires, "the State" means the Federal Government, [Majlis-e-Shoora (Parliament)], a Provincial Government, a Provincial Assembly, and such local or other authorities in Pakistan as are by*

law empowered to impose any tax or cess (Article 7, The Constitution of the Islamic Repubic of Pakistan, 1973)"

Article 77 of the Constitution of the Islamic Republic of Pakistan empowers the Majlis-e-Shoora (Parliament) to impose taxes for the Federation. This Article enacts that "*No tax shall be levied for the purposes of the Federation except by or under the authority of Act of [Majlis-e-Shoora (Parliament)]* (Article 77, The Constitution of the Islamic Republic of Pakistan , 1973)*"*

Under Article 165-A of the Constitution of the Islamic Republic of Pakistan 1973, Majis-e-Shoorah (Parliament) has authority to determine and impose tax on income. There are three kinds of taxes: Federal Taxes, Provincial Taxes and Local Taxes. The article says that "*For the removal of doubt, it is hereby declared that[Majlis-e-Shoora (Parliament)] has, and shall be deemed always to have had, the power to make a law to provide for the levy and recovery of a tax on the income of a corporation, company or other body or institution established by or under a Federal law or a Provincial law or an existing law or a corporation, company or other body or institution owned or controlled, either directly or indirectly, by the Federal Government or a Provincial Government, regardless of the ultimate destination of such income* (Article 165-A, The Constitution of the Islamic Republic of Pakistan , 1973)".

VII. EFFECTS OF TAX POLICIES

After independence within a span of about forty-two (42) years, during 1947/48 to 1989/90 the Tax Collecting Authority i.e. Central Board of Revenue (CBR) was able to collect Hundred Billion Rupee.

Within the next five years i.e. in 1995/96 this amount got double across Rs.200 Billions. After a period of next seven (07) years, Pakistan reserves went cross Rs.400 Billions in 2001-02. Afterwards, the next five (05) years saw an escalation in collection which crossed Rs.800 Billions in 2006-07. In 2007 Central Board of Revenue (CBR) was abolished and a new Authority concerning Taxation named the Federal Board of Revenue (FBR) was established and in the same year Tax collection rose up to Rupee One Trillion in 2007-08.

Chronically, from 1947 to date, a large number of The Tax Laws and Policies viz. a viz., reforms have been introduced by various governments which led to many changes in the tax system of Pakistan but the chronic problem of Pakistan Taxation System i.e. narrow tax base and low collection of taxes are still prevalent in our system. Even our legislation has not framed an Act adequate and considerable to our economy. No doubt three Laws relating Taxation have so far been promulgated but one of those i.e. Income Tax Act 1922 was an inherited Act and

the rest of two i.e. Income Tax Ordinance 1979 and Income Tax Ordinance, 2001 both are Ordinances promulgated by one man. This fact was also reiterated by the August Supreme Court of Pakistan in its esteemed judgment titled "CIT vs. Eli Lily (Pvt) Ltd." in the following words:

"*Since the creation of Pakistan, we have not been able to frame any Income Tax Act duly debated in the Assembly. Both the Ordinances were promulgated during the Martial Law Regime otherwise the Constitution of prescribed four months life of an Ordinance in case the Ordinance is not placed before the Assembly and it shall be enacted as an Act then the Ordinance will automatically cease to exist. This aspect also reveals that the Constitution has cast duty upon the legislature body to frame the laws within the parameters prescribed under the scheme of the Constitution….The fact that the Ordinance in question was issued and various amendments were incorporated before and even after the enforcement of the Ordinance 2001 raises the controversy that the Ordinance in question was promulgated without meticulous debate on the subject due to which assesses and concerned departments were compelled to agitate the issues in different courts*. (CIT vs. ELi Lily (Pvt.) Ltd. , 2009)"

With Regard to effectiveness of Tax Policies of Pakistan two extremely known tax Experts namely Dr. Ikram Ul Haq and Huzaima Bukhari commented that "*All efforts in the name of tax reforms (so-called) failed utterly as these were merely patchworks. Re-engineering and redesigning of the tax system has not been given any serious thought till today. The Sisyphean task of improving and reforming incorrigible tax machinery, mainly through donors' money, is still on the agenda of our policymakers. Since Pakistan's tax system is shrouded in mysteries through myths and mystifications, an effort is made in this book to unveil them and present reality in its stark form and also to suggest ways to come out of prevailing fiscal mess. Starting from reforms to misleading claims about narrowed (sic) tax base all myths are discussed and busted* (Bukhari, Tax Reforms in Pakistan: Historical and Critical View, 2020)".

It is an irrefutable fact that about 7.5 percent of the country's workforce, approximately 4.5 million, earns taxable income of Rs 400,000 or above. However, tax returns received by FBR for tax year 2015 were only 1,064,108. Out of these, 90% filers paid income tax of less than Rs 10,000. Tax base under indirect taxes (sales tax and excise) is also extremely narrow. According to FBR Year Book 2017-18, "the collection of sales tax domestic is concentrated in few commodities. The major commodities are petroleum products, electrical energy, cement, sugar, aerated water/beverages and cigarettes, which shared around 68% of sales tax domestic revenue (Bukhari, Tax Reforms in Pakistan: Historical and Critical View, 2020)*". "Failure to harness the real tax potential1 is the real dilemma of our policymakers and tax administrators.*

The existing tax structure is not only detrimental for economic growth but is also not yielding required revenues for the State. The economic managers have failed to realize that excessive taxation on savings does not increase government revenues. Once income has been taxed then savings and transactions should not be subjected to tax (Recorder, 2015)*"*.

Many of the Tax Field Experts have criticized the Taxation System of Pakistan and unanimously agreed that this system being a patchy one has badly failed to serve the required objects. In the words of Huzaima Bukhari and Dr. Ikram Ul Haq, "*level of taxation in a country is traditionally judged in terms of the ratio, which taxes bear to some measure of national income. The study of tax-GDP ratio is considered important because trends in taxation in a country or group of countries are analyzed mainly in terms of this ratio and the composition of tax revenues* (Bukhari, Tax Reforms in Pakistan: Historical and Critical View, 2020)". Pakistan economy is one of the low GDP ratio economies of the world with a flawed revenue collection. Owing to less collection of revenue by means of taxation, GDP ratio of the country always remained declining and the government could not take effective measures to revive it and bring it in conformity with the persisting circumstances. It is in the wake of failure by the Government to devise an efficacious Tax Collection mechanism to enhance the GDP ratio which leads to infer that the policies of the Government as to Tax Collection did not serve properly to gain the desired estimates and contribute to the GDP ratio of the country. Supposing to draw a comparison for the sake of determination of effectiveness of Tax Collection Policies by the Government, Tax to GDP ratio of the country for the last five (05) fiscal years i.e. 2015 to 2020 may be referred. In the year 2014/15, the Tax to GDP ratio of Pakistan was 9.4% which is considered to be a low ratio. In the next year i.e. 2015/16, the Tax to GDP ratio of the country witnessed a minor change and rose to 10.7% which remained almost constant with a slight difference as in the next year i.e. 2016/17 as it was calculated to the tune of 10.6%. However, in the next financial year the ratio went somewhat upward by running up to 11.1% in 2017/18. The next year i.e. 2018/19 once again proved decline in the Tax to GDP ratio and it reached downwards and was calculated as 10.1%. The previous year, once again, went through a massive effect of declining Tax to GDP ratio as at the end of fiscal year 2019/2020; it was 9.5% which manifests that Pakistan Government is has not been able to formulate a faultless tax collection policy.

VIII. Conclusion

The nutshell of the above debate or narration is that a policy whichever field it relates to having enormous significance is a key factor in the economy of a country. A good policy always gives

off performance but a bad policy always pays. The same is the case of Tax Policy of a country. A good Tax Policy adds to the generation of revenue through tax collection and triggers great contribution towards GDP of the country. With ever changing priorities of the state authorities, policies of the state are also affected. With regard to Taxation Pakistan enshrined Taxation Laws, amended those Laws, introduced Tax Reforms and numerous Tax Policies towards Revenue Generation through Tax Collection. So far as main concern of the Pakistan's Taxation Policy remains collection of more and more taxes through indirect taxes, receive foreign remittances and widen the tax net on one hand and on the other hand to revive the Tax Collection mechanism and in the post Covid-19 Pandemic to grant relief to the masses by announcing a package. Whether it is a democratic government or military regime made great efforts to accomplish the concern of Pakistan's Taxation Policy according to the need of the time. The country has so far adopted many laws, introduced a large number of Taxation Reforms but could not acquire the desired results and the Tax Collection of Pakistan has not contributed to the GDP of the State. Drawing a comparison of tax collection with similar economies, it appears that Pakistan is behind other like developing states despite so many law, policies and reforms.

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