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PIDE had organized a conference “Shifting the Paradigm on Tax Policy and Administration: A Policy for 21st Century” on March 11, 2020 in the Policy Capital of Pakistan. The conference aims to unbundle the taxation system of Pakistan for critical reforms by considering key questions: What is wrong with our Tax Policy? Why can't we fix it? Tariffs for Trade or Revenue? Technology, administration and documentation trio to improve tax collection and tax policy certainty? Renowned national and international experts will address these questions and put forth solutions.

As a prelude to the debate and answering these questions, we need to understand why taxes are needed in the first place. Certainly we don't like them. The simple answer is that taxes are the only way to generate revenues for financing public spending on goods and services. One can also question why do we need to spend in the first place, but let's put that aside for now. We know the government spends and taxes are needed to finance it since there are not many sources of finance other than that. An ideal taxation system would generate sufficient revenue to meet the needs of the government without discouraging economic activity.

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.

Apprehensions for the current tax regime and structural challenges in the economy present a daunting task for tax policy reforms. Some of these have been present since the beginning of Pakistan's economic life. So it has to have a perspective of efficiency, equity and be revenue

buyout. The ultimate question which remains is: how tax system could be best designed to promote inclusive growth? The decline in growth requires a debate on how tax policy can be used to bring back economic growth.

According to renowned public economics expert Vito Tanzi and Howell Zee; any proposed revision to tax policy should consider four key aspects of the economy, including

- the dominance of the informal sector (estimates of which range from 25% to 50% of the formal economy),
- inefficient tax administration (due to lack of well-educated and well-trained staff),
- lack of reliable data to assess potential impacts of major changes in the tax system, and
- skewed income distribution.

These are all very much grounded in our tax-economic issues, but often not rigorously considered while making a new policy.

Coming back to the conference; it should discuss “growth-oriented tax policy”, but with several questions in mind which should be added to the debate. Had the tax systems supported long run inclusive growth in Pakistan? Research shows the need to shift the tax mix away from income tax towards taxes that have a less negative impact on economic growth, including property, wealth, inheritance and last but not the least the consumption taxes.

We are 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.

Let us delve into some of the recent issues in tax streams. To start with taxing the real estate is good as these are progressive. Despite huge potential, revenue from recurrent property taxes

remains low and painful. There are looming questions on the role of political economy, the debate of 18th amendment related ownership of tax bases to name a few.

There is also an urgent need to reconsider inheritance taxes a sustainable source of resource growth and an equitable resource transfer among generations. An unfair resource redistribution across generations can reduce the competitive growth perspective. We used to, but can we again use wealth taxes as a tool to mitigate income and wealth inequality and promote social mobility with equal opportunities? Environmental taxes, such as carbon taxes, pollutant pay principle-based taxes and others offer a potential source of expanded revenue with equity across generation and across fiscal jurisdictions.

Let us propose a simple solution to maintain inclusiveness while shifting tax mix; that is to eliminate regressive tax expenditures (the tax concessions through SROs and lately through Schedules) and expand the tax base. We leave the conference to address it in more detail. But for growth it is imperative to recognize the role of small and medium enterprises (SMEs) and new businesses. So it is critical to increase competition (meaning let them have more transactions) that can promote dynamic and inclusive growth.

Although not all SMEs are innovative, new and small businesses tend to be the driving force behind important innovations for economic growth. Instead of reducing tax rates, these firms should be facilitated by reducing compliance and administrative burdens and create incentives for performance. All of these should be discussed keeping in view the objective of long run and inclusive higher growth. The conference will provide a platform to kick start a new debate on tax system reform in Pakistan by examining the country's prospects for inclusive growth while going through the demographic dividend phase. It will help policymakers and other stakeholders to connect the missing dots in tax policy not only to increase tax collection but also to promote growth and equity in the country.