# Why Pakistan has struggled with regressive taxation

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- High incidence of indirect taxes in comparison to direct taxes.
- In addition to apparent indirect taxes there is very high incidence of indirect taxes in the guise of direct taxation. This is presumptive tax regime;
- Reliance of taxes and duties at import stages
- Reliance of taxes at Retail Prices instead of actual sales prices;
- Deemed value addition at import stage.

# Signs of Regression

- These few examples reflect that Pakistan's tax system has lost elasticity and activity based taxation.

- Resultantly out of total taxes over 60 percent at least are not related or in proportion to income / activity.

# Signs of Regression

- Regressive step started emanating in 1980’s when collection of particular guaranteed sum was desired instead of income or activity.
- The first and foremost sign was introduction of a system where declaration of income and taxes thereon over (say 10 percent) of last year was deemed to be income irrespective of the results, income and activity.
- This system gradually divorced the actual accounting and asset record from tax incidence. So the income tax became a duty.
- Same thing happened in sales tax when instead of spreading the incidence to various value addition point sales tax was recovered at the retail price at the production stage;
- In short it was a commercial expediency over economic policies.

# Why Regression Evolved

- In addition to other economic negative inferences of this regression the fundamental error / mistake that emerged out of the same was omission of ‘asset and income record’ by the taxpayers and the population at large.
- It is for this reason Pakistan as a country does not possess any data base of asset as to its ownership.
- No incremental taxation can be made without a data base of assets, income and transaction.

# Effects of Regression

- Solution to any problem lies in accepting the existence of the problem.
- Firstly, all the stakeholders being taxpayer, tax collector and policy makers have to accept that ‘regression’ has to be eliminated.
- Whilst undertaking this struggle at the gestation stages there can be a dip in the revenue collection and some disturbances in the system. The mess can only be cleared if all the stakeholders are in principle convinced for the long and medium term gains instead of the collection in a particular year.

# Can we get out of mess?

- The first negative force that would interact whilst removing the regression will be the present beneficiaries. Who are they?
- Trading classes, professionals like doctors, agriculturists earning above taxable limits and unorganized and undocumented manufacturing sectors and the banking transactional aspects which are not lined up with the present taxation system .
- Unfortunately all these forces in combination represent a very strong political and social force and there will be attempts to digress the issue.
- A strong political and social movement for documentation will have to be undertaken.
- The message should be ‘asset and transaction record’ tax will ultimately flow

# Negative forces which will interact

- There is only one solution: Elimination of all sorts of presumptive taxation and creation of data base of assets and economic transaction.

# The solution

- Thank you