

**TAX AMNESTY**

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## **Pakistan: Economy Under Elites— Tax Amnesty Scheme, 2019**

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**Pakistan: Economy Under Elites—  
Tax Amnesty Scheme, 2019**

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## C O N T E N T S

	<i>Pages</i>
<b>Abstract</b>	v
<b>I. Introduction</b>	1
<b>II. Theoretical Scaffolding</b>	1
<b>III. Literature Review</b>	3
<b>IV. Inflection Point</b>	5
<b>V. Astroturfing</b>	7
<b>VI. Amnestisation Design Features</b>	8
<b>VII. Outcomes</b>	10
(a) Domestic Tax Amnesty	10
(b) Foreign Amnesty	11
<b>VIII. Conclusion</b>	13
<b>References</b>	14

### List of Tables

Table I.	TAS 2019: Total Declarations—Old & New	10
Table II.	TAS 2019: Domestic Assets – Declarations, Value of Assets & Tax Paid	11
Table III.	TAS 2019: Number & Value of Foreign Assets Whitened	12
Table IV.	TAS 2019: Foreign Declarations & Values Whitened—Top 10 Jurisdictions	12
Table V.	TAS 2018 vs. TAS 2019: Declarations, Assets, FE Remitted & Tax Paid	12

## **ABSTRACT**

The Tax Amnesty Scheme, 2019 (TAS 2019), needs to be read as a sequel to the Tax Amnesty Schemes, 2018 (TAS 2018), and so does this article. This article draws significantly on “Pakistan: Economy Under Elites—Tax Amnesty Schemes, 2018” – in the title, analytical framework, and even the thrust of the argument. Unlike TAS 2018, which was triggered by the impending bulk inflows of offshore bank account information under the Organisation for Economic Cooperation & Development (OECD)—Common Reporting Standard (CRS) framework, the TAS 2019 was prompted by the operationalisation of the Benami Transactions (Prohibition) Act, 2017, via framing of the Benami Transactions (Prohibition) Rules, 2019. The granting of the TAS 2019 during the PTI government’s prime years despite its public opposition to 2018 was evidence of an unbearable amount of pressure that Elites Ltd can exact on ruling coalitions in Pakistan, and successfully.

Below-par par outcomes vindicate the existing knowledge on the subject that compliance to tax laws, or any laws, is a function of the state. The analysis in the paper, directly and indirectly, leads one to conclude that economy continues to be under the brute shackles of Pakistani elites who can fiddle with policy at will to the ultimate chagrin of the tax administration, society, and the state. The article predicts that the perverse policy choice of tax amnestisation is set to continue in the future.

## I. INTRODUCTION

“When one repeats a mistake,” says Polo Coelho, “it is not a mistake anymore; it is a decision.” Likewise, when one repeats a mistake over and over again, it is not even a decision; it is a policy. This is true of Pakistan’s tax policy percent—tax amnestisation. On February 17, 2017, Pakistan promulgated the Assets Declaration Ordinance, 2017 (“the ADS, 2017”) to unveil yet another super-scope tax amnestisation initiative.<sup>1</sup>

The ADO, 2019, for ease of comprehension and consistency, in this article is referred to as Tax Amnesty Scheme 2019 (“the TAS, 2019”). At some level, this was reckoned to be an unexpected policy *volte-face*, at least, on two counts. Firstly, the amnesty was extended within only 10 months of the previous one, that is, the Tax Amnesty Scheme 2018 (TAS, 2018). Secondly, Pakistan Tehrik-e-Insaf (PTI), before coming to power by forming a ruling coalition in August 2018, had aggressively opposed tax amnestisations as unjust and elitist in tone and tenor.<sup>2</sup> Although the industrial and business elite were mounting a tremendous amount of pressure on the fragile government in its dying days, it was surprising for the PTI government “to succumb to such demands because it had been criticising such schemes passionately when in opposition”<sup>3</sup>. The TAS 2019 covered all types of assets for whitening—real, liquid, domestic, foreign, whether repatriated or not (self-owned or benami), and sales, and expenditures made both in and outside the country.

This article looks to contextualise the TAS 2019 within the overall political economy landscape of Pakistan and lay bare its various facets; it is divided into VIII sections. After section I has set the context, section II lays out theoretical scaffolding to enrich the reader’s understanding of the amnestisation initiative inside the larger scheme of statecraft in Pakistan. Section III briefly builds on, and surveys recent research on the subject. Section IV takes stock of the inflection point at which the polity is found constrained to decide in favour of launching yet another amnesty. Section V deals with the elitist astroturfing of public space in order to make the tax amnestisation initiative palatable. Section VI deals with design features of the amnestisation scheme. Section VII takes a shot at the outcomes of the TAS 2019, and critically examines them *vis-à-vis* its projections and those of the TAS 2018. Finally, Section VIII charts out implications of the tax amnestisation and summarises the debate with forebodings for the future.

## II. THEORETICAL SCAFFOLDING

Ahmed argues that tax amnestisation in Pakistan, if not always, has mostly been an elitist enterprise.<sup>4</sup> In fact, the elitist framework has long been applied to interpret Pakistan’s power and politico-economic structures.<sup>5</sup> However, Ahmed developed the convenient vehicle

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<sup>1</sup>See for an extensive literature survey Muhammad Ashfaq Ahmed, Pakistan: Economy under elites—Tax amnesty scheme, 2018/ *Asian Journal of Law and Economics*, 10:2 (2019), <https://dx.doi.org/DOI:https://doi.org/10.1515/ajle-2019-0016>.

<sup>2</sup>Abdullah Niazi, “Imran to challenge tax amnesty scheme despite being a beneficiary himself,” *Pakistan Today* (Islamabad), April 9, 2018.

<sup>3</sup>Khaleeq Kiani, “Halal tax amnesty,” *Dawn* (Karachi), April 8, 2019.

<sup>4</sup>Muhammad Ashfaq Ahmed (2017) Pakistan: Extraction, elites and state autonomy: A theoretical configuration. *The Pakistan Development Review*, 56:2.

<sup>5</sup>See, for a concise history of evolution of the theory of elitism and its application in Pakistan, Ahmed, “Pakistan: Extraction, elites and state autonomy: A theoretical configuration.”

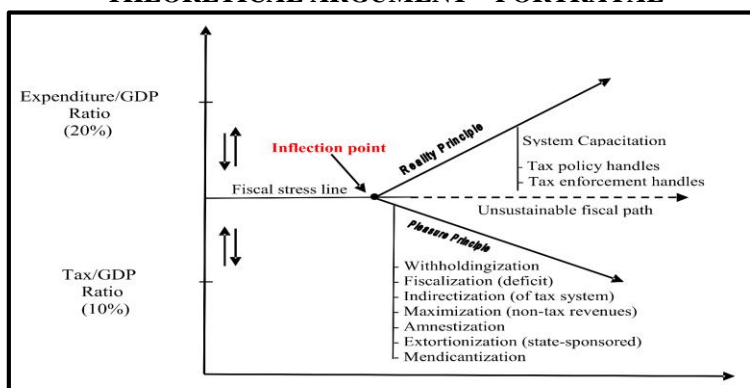
of Elites Ltd. to crystallise the elitist model, and expanded its scope to systematically analyse the monopolisation of Pakistan's revenue function, and disaggregated it into various mutually reinforcing undercurrents and cross-cutting mechanics at work so as to explain its historically below par (and even perverse) performance.<sup>6</sup>

The state's political crust, he argues, is essentially underpinned by Elites Ltd. which, in turn, is composed of six effective elites i.e. industrial elite, business elite, religious elite, feudal elite, military elite, and sundry (judicial, media, non-profits, and professional) elite. While elites enter into zero-sum transactions on the political chessboard, they descend down to non-zero-sum transactions in the economic domain; that elites face a rational actor dilemma in that they need a state to govern but they also need to maintain it at the minimum cost to themselves. In order to get out of this dilemma, the elitist state takes to extract from international sources; and that since an infinite international resource harvest is not possible, it resorts to undertake internal extraction through seven unwholesome and perverse modes by way of the required domestic resource-match, namely, withholdingisation, deficit fiscalisation, indirectisation (of the tax system), maximisation on non-tax revenues, extortionisation, mendicantisation, and amnestisation.<sup>7</sup>

It has been stated that: "In theoretical terms, tax amnestisation is also to be taken as an elitist shock to the system given to create certain amount of strategic space within which maneuvers are made to protect and promote economic goals."<sup>8</sup>

Ahmed further posits that through these very modes: the overly-state resorts to ad-hoc measures to make short-term revenue gains at the expense of long term systemic losses – a process akin to borrowing on Fried, brute pursuance of the *pleasure principle*.<sup>9</sup> It follows that, on the contrary, a functional state would walk up the *reality principle* path implying that it would choose to, instead, strengthening tax policy and enforcement handles. The finding of this paper are, in fact, yet another effort to operationalise the amnestisation prong of the theoretical framework.

### THEORETICAL ARGUMENT—PORTRAYAL



<sup>6</sup>Ahmed, "Pakistan: Extraction, elites and state autonomy: A theoretical configuration."

<sup>7</sup>Muhammad Ashfaq Ahmed (2019) "Pakistan: Economy under elites—Tax amnesty schemes, 2018".

*Asian Journal of Law and Economics*, 10:2 (2019), <https://dx.doi.org/DOI:https://doi.org/10.1515/ajle-2019-0016>.

<sup>8</sup>Ahmed, "Pakistan: Economy under elites—Tax amnesty schemes, 2018."

<sup>9</sup>See, for an elaborate analysis Ahmed, "Pakistan: Economy under elites—Tax amnesty schemes, 2018."

The above diagram is a representation of the above-narrated theoretical proposition. What it depicts is that at any point in time, the polity is found operating under significant amount of fiscal stress, namely, its expenditure far exceeds its revenues.<sup>10</sup> This implies that Pakistan, every now and then, finds itself at the inflection point – the crossroads of sorts – at which it has two choices: one, to capacitate its revenue system enough to exact par taxation like all functional states, which is also good enough to finance its expenditures; secondly, it resorts to convenient yet perverse extraction through the aforementioned six domestic resource-match ploys.

The analysis inducts the competing Freudian analytical concepts of the *reality principle* and the *pleasure principle* to amplify both the options, respectively. This study looks to operationalise the above theoretical framework by juxtaposing amnestisation therein and critically analysing it from all essential perspectives. The effort is to operationalise the elitist model by taking stock of the TAS 2019.<sup>11</sup>

### III. LITERATURE REVIEW

A substantial amount of knowledge has been generated on amnestisation, in general, and tax amnestisation, in particular. Ahmed parsimoniously surveyed much of the relevant literature produced on tax amnestisation, while taking stock of TAS 2018.<sup>12</sup> In addition, some knowledge that has surfaced since then is taken account in this section.

Herman B. Leonard, and Richard J. Zeckhauser theorise as to when a tax amnestisation occurs. They argue that a tax amnesty is likely to go on offer when a substantial number of “ordinary citizens participated in illicit activity,” when the “offense did not directly harm identified individuals,” when the “offense is not chronic or linked to a pattern of other offenses,” and when the state institutions had a realisation that “Enforcement will be nearly impossible anyway.”<sup>13</sup>

Guttman, primarily from a practitioner’s perspective, argues that “Tax administrators generally believe that using an amnesty is unwise because the short-term benefits of the amnesty, collecting some additional revenue, will be outweighed by long lasting adverse effects on future compliance.”<sup>14</sup> To Guttman, tax amnestisation is like using fire “to control a forest’s growth,” and “is a potentially dangerous tool for revitalising the tax system.”<sup>15</sup> Guttman believes that an “amnesty must be tailored to the needs of a particular country and its current tax circumstances,” as it can potentially “act

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<sup>10</sup>At some level, the increase in fiscal stress is an indication of deterioration of overall economic health of a country, which causes a likelihood as well as failure of an amnesty. During a recession, production falls, which causes the unemployment rate to rise, due to which amnesty is not able to generate higher revenues as compared to a scenario where there was an economic boom, more production and more employment. As the fiscal health continues to remain poor after an amnesty failure, it increases the likelihood of another amnesty program to be introduced by the government in near future.

<sup>11</sup>In fact, this Paper comes as a sequel to Ahmed, “Pakistan: Economy under Elites—Tax Amnesty Schemes, 2018.”

<sup>12</sup>See, for an extensive literature review on the matter Ahmed, “Pakistan: Economy under elites—Tax amnesty schemes, 2018.”

<sup>13</sup>Herman B. Leonard, and Richard J. Zeckhauser, “Amnesty, enforcement, and tax policy,” In *Tax Policy and the Economy*. Lawrence H. Summers (ed.) vol. I (Boston, Massachusetts MIT Press, 1987).

<sup>14</sup>Geogre Guttman, “Tax indulgences: The scope and effect of tax smnesty. *Tax Administration Review*, 11: September (1992).

<sup>15</sup>Guttman.

as a tonic to revitalise the tax system.”<sup>16</sup> “Otherwise,” he goes on to caution, “the tax system and administrative machinery may be in worse shape after the amnesty.”<sup>17</sup>

“While exploring into the inter-linkages between tax amnestisation and money laundering,” Attiya Waris and Layla Abdul Latif, argue that, governments “actively facilitate money laundering through legal provision of whitening black money.”<sup>18</sup> They go on to say that “even though only a small proportion of the black money of a person is whitened through payment of 10 per cent tax, the process allows black money to circulate in the formal economy if the owner of that black money chooses to do so.”<sup>19</sup> Ramazan Bicer, exploring the nature and outcomes of tax amnestisation in Turkey draws interesting outcomes<sup>20</sup>, mainly tax related provisions of a new law on public receivables. The Law enables, from the point of public receivables, public debtors to pay their debts either by cash or instalments by restructuring public claims, which have difficulty in collection.

Bayer, Ralph-C., Harald Oberhofer, and Hannes Winner (2015) treat amnesties as endogenous, resulting from a strategic game between many taxpayers discounting future payments from punishment and a government that balances costs and benefits of amnesty programs. From their model, they derive hypotheses about the factors that should influence the occurrence of tax amnesties. Their empirical findings suggest that the likelihood of amnesties is mainly driven by a government's fiscal requirements and the taxpayers' expectations on future amnesties.<sup>21</sup>

Nur Sayidah and Aminullah Assagaf look “to analyse the views on tax amnesty from various parties, namely state officials, tax officials, taxpayers, and tax consultants.”<sup>22</sup> By using their analysis they prove that a tax amnesty can be used to trigger and incentivise repatriation of funds from foreign jurisdictions; to increase revenue for budgetary purposes; to create a bulwark against future illegal parking of funds in offshore havens; to wheedle good taxpayers into compliance with tax laws in future; and to build infrastructure to strengthen the confidence of taxpayers.<sup>23</sup> Lopez-Laborda and Rodrigo, on the basis of the study conducted in the context of Spanish tax amnesty granted in 1991, through a rigorous econometric modeling work, found that it “had no effect on tax collection in either the short or the long term.”<sup>24</sup> Except Nur Sayidah et al, almost all of the researchers have found that tax administrations hardly have any positive correlation with the statecraft, revenues, tax administration or taxpayers' perception, but tax amnesties continue to be given in abundance – particularly in Pakistan.

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<sup>16</sup>Guttman.

<sup>17</sup>Guttman.

<sup>18</sup>A. Waris, and L. Abdul Latif, “The effect of tax amnesty on anti-money laundering in Bangladesh,” *Journal of Money Laundering Control*, 17: 2 (2014).

<sup>19</sup>Waris, and Latif.

<sup>20</sup>Ramazan Biçer, “Turkey: A new tax amnesty.” *INTERTAX* 43:3 (2015).

<sup>21</sup>Bayer, Ralph-C., Harald Oberhofer, and Hannes Winner. “The occurrence of tax amnesties: Theory and evidence.” *Journal of Public Economics*, 125: (2015), 70–82.

<sup>22</sup>Nur Sayidah, and Aminullah Assagaf, “Tax amnesty from the perspective of tax official,” *Cogent Business & Management*, 6:01, (2019).

<sup>23</sup>Sayidah, and Assagaf.

<sup>24</sup>Julio López-Laborda, and Fernando Rodrigo, “Tax amnesties and income tax compliance: The case of Spain,” *Fiscal Studies*, 24, 1 (February, 2003).

#### IV. INFLECTION POINT

Although, the Benami Transactions (Prohibition) Act, 2017 (“the BTA, 2017”) had been promulgated for a couple of years, it could not be operationalised unless the Benami Transactions (Prohibition) Rules, 2019, (hereinafter “the BTR, 2019”) were issued.<sup>25</sup> The BTA, 2017 had been pre-ambedled “*to provide for prohibition of holding property in benami and restrict right to recover or transfer property held benami, and provide mechanism and procedure for confiscation of property held benami.*” The BTA, 2017, was brought in to checkmate a wide-going perverse process of the economy. It was believed that benami was a significant issue of the polity as a large number of economic assets created over time were not kept in the title of beneficial owners. Therefore, this was not only a problem for the tax system, but also for the entire governance system. The promulgation of BTA, 2017 had bred significant amount of anxiety and nervousness in the Pakistani elites who were well-known to hold benami assets and bank accounts and even undertake benami business transactions. This had led to concerted efforts by, and on behalf of Elites Ltd., to block the BTA, 2017’s operationalisation, and they successfully did it for good two years.

The operationalisation of the BTA, 2017, on March 11, 2019, turned out to be the inflection point and trigger of the TAS 2019. In fairness, the BTA, 2017, had neither been legislated nor operationalised out of Pakistan’s own will and volition; it was, instead, coerced and bulldozed by the outside world – international multilateral frameworks like FATF, IMF, World Bank and OECD—pressurising the government directly and indirectly. Once the BTA, 2017 was enforced, the Pakistani elites felt cornered and threatened. A plausible spectre of getting caught for cheating and amassing assets way beyond the ostensible means declared and offered for taxation looming large. The state also found itself on the inflection point—it had the option to resort to *the reality principle*, pitch up its recoil, capacitate the tax system and go after the delinquents who had been taking it for a ride at will or capitulate under Elites Ltd.’s pressure yet another time—*the pleasure principle*. The elites outmaneuvered, clamored, and lobbied for and got away with yet another amnestisation—the TAS 2019.

It was argued that after “enactment of Benami law and making it operational through issuance of rules...**the tax amnesty scheme is essential for giving last chance to businessmen for declaring their assets and income by making adjustments in their books because currently they are making business deals out of their books.**”<sup>26</sup> The government also considered it advisable “to give them chance to bring all assets and income on their balance sheets as without improving their balance sheets they cannot undergo joint ventures.”<sup>27</sup> Such arguments were being advanced without any conscience or qualms. Ahmed writes of the ability of the Pakistani elites to promote their economic agenda:

In order to pursue their economic agenda they do not form any permanent alliances nor do they enter into any ideological battle-grounds. They quickly

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<sup>25</sup>The Benami Transactions (Prohibition) Rules, 2019, were notified vide SRO No. 326 dated March 11, 2019.

<sup>26</sup>Mehtab Haider, “Amnesty scheme should focus on broadening Tax Net,” *The News* (Islamabad), April 22, , 2019.

<sup>27</sup>Haider.

shuffle and change their positions from moment to moment and on issue to issue frantically looking to optimise their economic gains ruthlessly—at all costs, and at all times. In Pakistan, economic group-interest is the only permanent and defining factor in the formation and deformation of elite alliances—including ruling coalitions. They want, neither to rule nor be ruled, if it could in any manner, potentially jeopardise the economic status quo. But Pakistani elites are effective to the kill, go-getters of the highest order, and top performers when it comes to achievement of their own agenda. They have, over time, exhibited tremendous efficacy to put together ruling alliances which could under-write the economic-political status quo; which would not pose taxing questions; which would guarantee provision of subsidies, exemptions, and a dysfunctional extractive system.<sup>28</sup>

The above assertions were on the verge of becoming true even in the wake of PTI having publicly opposed TAS 2018, coming to power that. The PTI government went ahead with the amnestisation initiative despite the express disapproval of the IMF. Teresa Daban Sanchez, IMF Resident Representative, Pakistan, stated that “IMF position against tax amnesties is well known,” and that “Cross country experience shows these schemes usually are not successful in mobilising revenues and are quite damaging to the moral of obliging taxpayers.”<sup>29</sup>

Likewise, the FATF publicly opposed the impending amnestisation but to no avail.<sup>30</sup> It was found exceedingly surprising for the PTI government “to succumb to such demands because it has been criticising such schemes passionately when in opposition.”<sup>31</sup> It has been remarked that “Crises involve sharp confrontations among political elites, and they often produce changes in elite composition and functioning that are manifested by new or significantly altered regimes,” and that “in moments of crisis, political leaders and elites possess significant autonomy and latitude for maneuver,” and further that the “choices that they make at such moments are frequently decisive for the outcomes of crises and for the regimes that follow.”<sup>32</sup>

In all fairness, however, PTI government’s capitulation to Elites Ltd.’s pressure on this count ought to be taken as an aberration. In 2019, on a number of counts, it took measures to strengthen the tax system on long term basis. An ongoing amnesty on account of real estate assets denoting difference of the Federal Bureau of Revenue’s (FBR’s) value and actual purchase value at the rate of 3 per cent was discontinued w.e.f. July 1, 2019. An implied amnesty extended on foreign remittances by *even* tax resident Pakistanis was reduced from Rs.10 to Rs.5 million per annum.

A large number of incomes that had been kept in presumptive regime with a corresponding waiver from finalisation of financial accounts and declaration of normal

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<sup>28</sup>Ahmed, “Pakistan: Extraction, elites and state autonomy: A theoretical configuration.”

<sup>29</sup>Tahir Amin, “I.M.F. Not in favour of tax amnesty scheme,” *Business Recorder* (Karachi), April 22, 2019.

<sup>30</sup>Khaleeq Kiani, “IMF opposes extension of amnesty scheme deadline,” *Dawn* (Karachi), June 29, 2019.

<sup>31</sup>Kiani, “Halal tax amnesty.”

<sup>32</sup>M. Dogan, and J. Higley, *Elites, crises, and the origins of regimes* (Rowman & Littlefield Publishers, 1998), 3. [https://books.google.com.pk/books?id=8qZMFmK\\_KicC](https://books.google.com.pk/books?id=8qZMFmK_KicC).

incomes, were withdrawn despite being unpopular. Likewise, a significant number of exemptions were also withdrawn, and an attempt was made to document the retail sector through point of sale (POS) integration with tax administration's IT system for real time reporting of transactions. The whitening was also targeted by the State Bank of Pakistan (SBP) when it decided to terminate bearer prize bonds denominating Rs. 40,000. It was reported in September 2019 that Rs.177.41 billion were documented since denomination of Rs.40,000 bonds – in about a year's time.<sup>33</sup>

## V. ASTROTURFING

The enforcement of the BTA, 2017 had opened a new chapter in the debate. The Elites Ltd. realising that they were caught on the wrong foot and that there loomed a possibility of a state recoil at their past economic conduct, got down to influencing public perceptions for another massive tax amnestisation. An extensive electronic and print media campaign was launched to make the tax amnestisation a reality; prime time talk shows to neutralise public opposition to amnestisation were sponsored, and economists, professionals and other opinion-makers were unleashed to shape the environment by arguing in favour of the tax amnestisation. The argument advanced was that people had a lot of black money, and if they could be given one last time chance to whiten and mainstream it, the economy would strengthen through the expansion of aggregate demand and job creation. Influencing was undertaken across a wider spectrum involving quite a few newer options than – seminars, social media, and roadshows.

Even private financial institutions were coaxed into writing to their clients to create a fear factor and wheedle them into filing the amnesty scheme.<sup>34</sup> Illustratively, the advice of a private bank to its clients harangued “that national and international compliance requirements are increasingly focusing on the monetary transactions carried out through banking and other formal and informal channels,” and suggesting ways to avail the amnesty.<sup>35</sup> Prime Minister, Imran Khan addressed the nation three times urging them to avail the amnesty scheme.

He stated in a televised address to the nation on June 21, 2019:

We are stuck in a debt trap. The problem now is tax theft. To end tax theft, I need your help. Until the people do not resolve along with the government, to extricate itself from these loans, they will not be able to get out of the debt trap. I have initiated this scheme under which you can declare your assets until June 30. This scheme is a golden opportunity for you to declare money you have kept at home, dollars, jewellery, benami accounts and foreign assets that you possess.<sup>36</sup>

The government's eagerness to make the amnestisation initiative succeed turned it into a referendum of its own popularity. “The reason this has turned into a referendum is because if the response to the appeals for the amnesty scheme is weak, the credibility of

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<sup>33</sup>Shahnawaz Akhter, “Rs. 177.41 billion documented since termination of Rs. 40,000 bonds.” *The News* (Islamabad), September 07, 2019.

<sup>34</sup>Tariq Butt, “Availing tax amnesty scheme: Private banks start persuading their account holders.” *The News* (Islamabad), June 23, 2019.

<sup>35</sup>Butt.

<sup>36</sup>Butt.

the entire tax effort to follow will be challenged at the very outset,” and that a “weak response will basically mean that people have called the government’s bluff.”<sup>37</sup> To top up the fear-factor in the hearts of the citizenry, the government strategically timed the creation of the Adjudicating Authority under the BTA, 2017.<sup>38</sup> The Adjudicating Authority’s establishment was given a media hype and portrayed as a panacea to all economic ills of the country. It is generally believed that the Adjudicating Authority’s creation did, to a certain degree, influence the perception of the delinquents – potential tax-filers.

The government went overboard to publicise and popularise the amnesty. International roadshows were planned in about half a dozen countries to convince and lure the Pakistani diaspora into availing the last-chance amnesty. However, due to bureaucratic hurdles and constraints, only one roadshow in the UAE could be arranged.<sup>39</sup> The FBR’s Facilitation and Taxpayers’ Education Wing ended up spending over Rs.200 million on electronic and print media campaigns.<sup>40</sup> Understandably, the media elite lent full support and this time around, the media took a positive view of the reform package.<sup>41</sup>

The eventuality of the amnesty scheme getting challenged in the court of law was strategically preempted in the public domain, deliberated upon and neutralised. It was stated that the previous “amnesty was launched only a year ago,” which “had the backing of judiciary, too.”<sup>42</sup> It was feared that “it might be challenged on several grounds,” as it was “time to make hard decisions, not by further burdening the poor but by taxing the rich and landed classes and by holding them accountable without exception.”<sup>43</sup>

As expected, no one in the entire country, including civil society, challenged the amnestisation initiative in a court of law—even at the peak of hyper judicial activism. To garner greater public support, an exaggerated revenue figure was put on the amnesty scheme; it was projected that “tax authorities have now estimated around Rs. 250-300 billion in revenue from the new scheme.”<sup>44</sup> How exaggerated this figure was, only time would tell?

## VI. AMNESTISATION DESIGN FEATURES

When viewed from the tax administration lens, the TAS 2019 carried better design features than TAS 2018.<sup>45</sup> The TAS 2019 was based on the assumption that

<sup>37</sup>Khurram Husain, “Amnesty or referendum?” *Dawn* (Karachi), June 27, 2019.

<sup>38</sup>The Adjudicating Authority under the Benami Transactions (Prohibition) Act, 2017, was established vide Notification No.1591-IR-I/2019, dated June 29, 2019. The composition of the Authority was Jamil Ahmad, Chairman, Muhammad Tanvir Malik, Member, and Khaqan Murtaza, Member.

<sup>39</sup>Waheed Abbas, “Pakistan amnesty: Uae expats to lead asset declaration,” *Khaleej Times* (Dubai), June 26, 2019. It may be added that it was the author himself who gave the only roadshow in UAE.

<sup>40</sup>Administration & Finance Wing, Federal Board of Revenue, Islamabad.

<sup>41</sup>See, for instance, Sohail Ahmed, and Junaid Saleem, “Hasb-E-Haal,” *Dunya TV* (Lahore), August 4, 2019, <https://www.youtube.com/watch?v=5YOOMGJvDwY>.

<sup>42</sup>Muhammad Waqar Rana, “Tax amnesties,” *Business Recorder* (Karachi), April 24, 2019.

<sup>43</sup>Rana.

<sup>44</sup>Shahnawaz Akhter, “F.B.R expects up to Rs. 300 billion in revenue from new Tax amnesty scheme.” *The News* (Islamabad), April 4, 2019.

<sup>45</sup>A plausible reason for such an improvement was that ADO, 2019, unlike TAS, 2018, was drafted internally by FBR’s team of bright tax policy formulators ably led by Dr. Hamid Attique Sarwar—Member (Inland Revenue Policy).

“...there is reportedly a large-scale non-declaration of assets, sales and expenditure;” and that “...it is expedient to make provisions for declaration of such assets, sales and expenditure.”<sup>46</sup>

The TAS 2019 looked to amnestise assets acquired, expenditures incurred, and sales made in the name of the declarant himself as well as a benamidar on or by June 30, 2019.<sup>47</sup> The coverage under the TAS 2019, was also extended to any assets, sales or expenditures including those held in a benamidar’s title and in respect of which tax proceedings under any of the tax laws were pending.<sup>48</sup> The TAS 2019 were to exclude Public Office Holders (POHs) as defined in the Voluntary Declaration of Domestic Assets, 2019, or their benamidars as defined in the BTA, 2017, their spouses and dependent children, as well as a public company.<sup>49</sup> Likewise, any proceeds or assets involved in or derived from the commission of a criminal offense were also excluded from the purview of the amnestisation. The assets held in the form of gold, precious stones, bearer prize bonds, bearer securities or any other assets in respect of which proceedings were pending in a High Court or Supreme Court of Pakistan were not covered by the amnesty.<sup>50</sup> It is pointed out that while whitening of benami assets was the very trigger of the amnestisation, undisclosed sales made and expenditures incurred were innovations on the previous tax amnestisations.

The scope of tax amnestisation stretched far and beyond its normal bourns. It was ordained that “nothing contained in any declaration made...shall be admissible in evidence against the declarant for the purpose of any proceedings relating to imposition of penalty or adverse action or for the purposes of prosecution under any law.”<sup>51</sup> The statute also took a precaution against misrepresentation by stipulating that “where a declaration has been made by misrepresentation or suppression of facts, such declaration shall be void and shall be deemed to have been never made.”<sup>52</sup>

While TAS 2018 had a built-in confidentiality cover that was unprecedented in scope and strictness, it was standard and a diluted one in TAS 2019. Although adequate protection was given to declarations made under the TAS 2019, access was allowed to departmental officers through creation of exception to “the provisions of clauses (a) and (g) of sub-section (3) of section 216 of the Income Tax Ordinance, 2001.”<sup>53</sup> While domestic real assets could be whitened at the rate of 1.5 per cent, all other domestic assets carried a rate of 4 per cent. Foreign liquid assets whitened and not repatriated carried a rate of 6 per cent. Likewise, undisclosed expenditure and sales carried a rate of 4 per cent and 2 per cent, respectively.<sup>54</sup>

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<sup>46</sup>Pakistan, *The Assets Declaration Ordinance, 2019* (Islamabad: 2019).

<sup>47</sup>Section 3 of Pakistan.

<sup>48</sup>See Explanation to section 3 of Pakistan.

<sup>49</sup>Section 11 of Pakistan.

<sup>50</sup>Pakistan.

<sup>51</sup>Section 12 of Pakistan.

<sup>52</sup>Section 13 of the Pakistan.

<sup>53</sup>Section 216(3)(a)&(g) of the I.T.O 2001, reads: “(3) Nothing contained in sub-section (1) shall preclude the disclosure of any such particulars—(a) to any person acting in the execution of this Ordinance, where it is necessary to disclose the same to him for the purposes of this Ordinance;” and “(g) to any authority exercising powers under the Federal Excise Act, 2005, the Sales Tax Act, 1990, the Wealth Tax Act, 1963, or the Customs Act, 1969, as may be necessary for the purpose of enabling its duty to exercise such power”.

<sup>54</sup>See, the Schedule to Pakistan.

The TAS 2019 did carry a usual override, but it was adequate, and not as harsh as a year ago. One of the main shortcomings of the TAS 2018 was that becoming a taxpayer was not even a precondition to availing the amnesty, was adequately made up in the TAS 2019. Yet another marked difference between the two was that under the former, only Pakistani citizens were eligible; under the latter, strictly legally speaking, any person could avail it. This aspect was not spotted by the international community during the currency of the TAS 2019.

The amnesty was rolled out as a separate standalone statute, which is never a good ploy. It should have been embedded into the tax laws itself. Standalone separate laws create difficulties in implementation as there is inadequate machinery available to operationalise them. Illustratively, Section 17 of the ADO 2019 was overprotective as it was the “Federal Government” which was empowered to intervene to remove any difficulties. This created significant problems for the filers. The provision that a public officeholder (POH) or a politically exposed person (PEP) was not eligible to avail the amnesty, could be determined by the field officers, was an improvement over previous year’s amnesty design.

## VII. OUTCOMES

To ensure TAS 2019’s soft-landing, the projected revenue tag associated to it was exaggeratedly put at Rs.250-300 billion.<sup>55</sup> It was also expected that “if the scheme yields anything less than 55,000 declarants,...less than Rs.150 billion in revenue, and less than Rs.1 trillion in foreign assets declared, there are grounds for considering that people have called the government’s bluff.”<sup>56</sup> Surprisingly, all these plus-size projections were made despite the fact that the previous amnesty was given less than a year ago, and that no significant investments or efforts had been made to quantum improve and enhance deterrence so as to positively influence the delinquent taxpayers’ perception. A dissection of TAS 2019’s outcomes would empirically prove that the government’s bluff was called.

### (a) Domestic Tax Amnesty

Under TAS 2019, as shown in Table I, a total of 125,349 amnesty declarations were filed, which was more than double of the expected figure of 55,000. Out of a total of 81,156 domestic declarations, 42,009 were new ones representing 51.75 percent of the total domestic declarations filed. Likewise, out of the total 2,184 foreign declarations, 241 happened to be new filers—12.4 percent of the total foreign declarations filed. Thus, TAS 2019 fared slightly better for the system by bringing in a decent number of new taxpayers as compared to TAS 2018 wherein it was not even required to be a filer.

Table I

*TAS 2019: Total Declarations—Old & New*

#	Declaration Category	New Filers	Existing Filers	% of New Filers	Total
1	Domestic	42,009	81,156	51.76%	123,165
2	Foreign	241	1,943	12.4%	2,184
	<b>Total</b>	<b>42,250</b>	<b>83,099</b>		<b>125,349</b>

Source: Pakistan Revenue Automation Ltd.

<sup>55</sup>Akhter, “F.B.R expects up to Rs. 300 billion in revenue from new tax Amnesty Scheme.”

<sup>56</sup>Husain.

When it comes to an asset-wise breakdown of declared values whitened and corresponding tax paid in respect of both “self-owned” and “benami-held” assets as depicted in Table II, the outputs are not even closer to projections. Out of the total assets declared at 191,069, an overwhelming 182,961 were self-owned, whereas 8,609 were benami assets. The total value of assets whitened at Rs. 2,268 breaks down into Rs. 2,099 billion for self-owned assets and Rs. 169 billion for benami-held assets which implies that out of the total assets whitened 7.45 per cent were held in benami—a substantial amount. Similarly, out of total tax yield of Rs.53.82 billion at Rs. 3.22 billion, namely 5.98 per cent, is on account of whitening of benami assets.

The bulk of the assets whitened included bank accounts, motor vehicles, and real estate assets; in fact, maximum benami assets whitened were in open plots and land. In the same vein, the value of undisclosed expenses whitened stands at Rs. 3.447 billion. Likewise, the value of undisclosed sales whitened for sales tax and federal excise purposes at Rs.86.80 and Rs. 5.40 billion, respectively, was not insignificant at all. Whitening of cash at Rs.52.70 billion is expectedly indicative of substantial underground economy prevalent in the country.

Table II

*TAS 2019: Domestic Assets – Declarations, Value of Assets & Tax Paid*

(Rs. in Billion)

#	Asset Description	Tax Rate	Owned Assets			Benami Assets		
			Declarations	Value	Tax	Declarations	Value	Tax
1	Bank Accounts	4	41,782	336.80	13.50	528	5.30	0.21
2	Bank Accounts (FC)	4	2,735	31.90	1.30	33	0.32	0.01
3	Motor Vehicles	4	13,261	29.20	1.20	1,023	3.70	0.15
4	Other Investments <sup>57</sup>	4	3,684	32.80	1.30	139	3.30	0.13
5	Other Assets	4	18,456	228.20	9.10	296	14.90	0.60
6	Open Plots & Land	1.5	46,314	763.40	11.50	3,345	102.50	1.54
7	Superstructure	1.5	13,037	129.80	1.90	627	6.90	0.10
8	Apartments / Flats	1.5	32,629	367.60	5.50	2,617	31.90	0.48
9	Undeclared Expenses	4	3,447	37.50	1.50	-	-	-
10	Cash Available <sup>58</sup>	4	1,832	15.20	0.60	-	-	-
11	Cash Available <sup>59</sup>	4	3,852	34.40	1.40	-	-	-
12	Undeclared Sales – ST	2	1,370	86.80	1.70	-	-	-
13	Undeclared Sales – FE	2	62	5.40	0.11	-	-	-
<b>Total</b>			<b>182,461<sup>60</sup></b>	<b>2,099</b>	<b>50.6</b>	<b>8,608</b>	<b>168.82</b>	<b>3.22</b>

Source: Pakistan Revenue Automation Ltd.

**(b) Foreign Amnesty**

The TAS 2018 came to a close on July 31, 2018. On October 30, 2018, the first packet of bank account information was exchanged under the OECD-CRS framework. It was argued that the main trigger of the TAS 2018 was the expected bank account information exchanges under the OECD-CRS framework.<sup>61</sup> The TAS 2019 was a fresh lease of life for the elites who had either completely or partly missed the TAS 2018, or

<sup>57</sup>This excludes bearer bonds, certificates, prize bonds, gold and precious stones.

<sup>58</sup>This refers to the cash available as on June 30, 2018, but invested in immovable property post June 30, 2018.

<sup>59</sup>This included cash available as on June 30, 2018, but invested in Business post June 30, 2018.

<sup>60</sup>The number of distinct filers was 123,165.

<sup>61</sup>Ahmed, “Pakistan: Economy under elites—Tax amnesty scheme, 2018.”

were skeptical about the efficacy of the impending exchanges under the CRS framework. Despite these misgivings, they were offered to come on board.

Table III shows a head-wise breakdown of assets whitened divulges revealing results. A total of 2,620 declarations were filed in respect of foreign assets out of which 2,527 were in connection with self-owned and 93 benami-held assets. The total value whitened comes to Rs. 214 billion, which breaks down to Rs. 208.7 billion for owned and Rs.5.4 billion for benami assets. The total tax collected was Rs. 10.84 billion.

Table III  
*TAS 2019: Number & Value of Foreign Assets Whitened*

(Rs. in Billion)								
#	Asset Description	Tax Rate %	Owned Assets			Benami Assets		
			Declarations	Value	Tax	Declarations	Value	Tax
1	Liquid Assets (Not Repatriated)	6	1,329	110.3	6.6	40	1.2	0.07
2	Liquid Assets (Repatriated)	4	82h	1.7	0.07	4	0.08	0.03
3	Immovable Assets	4	1,116	96.7	3.9	49	3.4	0.13
<b>Total</b>			<b>2,527<sup>62</sup></b>	<b>208.7</b>	<b>10.6</b>	<b>93</b>	<b>5.4</b>	<b>0.24</b>

Source: Pakistan Revenue Automation Ltd.

It is evident that the maximum declarations filed in respect of non-repatriated offshore assets at 1,369 were in respect of foreign bank accounts & other liquid assets. Contrarily, liquid assets that were repatriated were Rs.1.7 billion only in 86 declarations yielding an insignificant tax revenue of Rs.0.10 billion. With regard to non-repatriated benami offshore liquid assets, 40 declarations were filed to whiten Rs. 1.2 billion in lieu of tax payment of Rs.0.07 billion. In respect of repatriated benami liquid assets, only 4 declarations were filed to clean an amount of Rs.0.80 billion for tax payment of Rs.0.3 billion. A significant amount of Rs.100 billion was whitened through 1,165 declarations yielding a tax amount of Rs.4.1 billion, out of which only Rs.3.4 billion through 49 declarations happened to be on account of offshore benami assets.

Table IV  
*TAS 2019: Foreign Declarations & Values Whitened – Top 10 Jurisdictions*

(Rs. in Billion)						
#	Foreign Jurisdiction	Declarations	Value of Immovables Whitened	Value of Liquid Assets Whitened		Total Values Whitened
				Repatriated	Un-Repatriated	
1	UAE	1,331	46.81	0.81	23.09	70.70
2	UK	481	33.16	0.11	12.30	45.57
3	Singapore	73	2.57	-	17.92	20.49
4	Switzerland	65	-	0.32	13.37	13.69
5	BVI	33	2.04	-	15.46	17.50
6	USA	182	4.01	0.08	6.96	11.04
7	Jersey	12	0.46	0.01	10.56	11.04
8	Canada	148	5.60	0.04	2.10	7.74
9	Isle of Man	7	3.06	-	0.13	3.19
10	Malaysia	54	0.66	0.07	1.16	1.90
11	Others	244	2.28	1.13	8.49	11.89
<b>Total</b>		<b>2,630</b>	<b>100.64</b>	<b>2.56</b>	<b>111.55</b>	<b>214.75</b>
% -age of Total			46.86	1.19	51.94	100

Source: Pakistan Revenue Automation Ltd.

<sup>62</sup>The number of distinct filers was at 2,184.

When foreign declarations are broken down offshore jurisdiction-wise, out of the total 2,630 declarations filed, 2,386 were lodged in respect of assets held in top 10 jurisdictions as listed in Table IV. Likewise, out of the total value whitened at Rs.214.75 billion, a staggering sum of Rs.202.86 billion emanated only from listed top ten jurisdictions. Interestingly, in respect of the real estate assets whitened more than 50 per cent declarations and 46 per cent value pertained to UAE only – Pakistanis’ favourite destination for money laundering. Next best is the UK where Pakistanis whitened real properties worth Rs.33 billion in only 481 declarations.

Put together more than 50 per cent of the total real estate whitened in more than 50 per cent of the total declarations pertained only to UK and UAE. Liquid assets are rather dispersed across jurisdictions more evenly. Out of total bank deposits whitened valuing Rs. 111.55 billion, a whopping sum of Rs.100 billion was concentrated in seven offshore jurisdictions – UAE, UK, Singapore, Switzerland, BVI, USA, Jersey, and Canada.

Table V

*TAS 2018 vs. TAS 2019: Declarations, Assets, FE Remitted & Tax Paid*

(Rs. in Billion)

TAS	Declarations (Numbers)	Assets Value Whitened	FE Remitted	Tax Paid
TAS 2018	83,120	3,011.4	9.76	121.4
TAS 2019	125,349	2,263	1.19	64.66
<b>Total</b>	<b>208,469</b>	<b>5,274.4</b>	<b>10.95</b>	<b>186</b>

*Source:* Pakistan Revenue Automation Ltd.

In overall terms, the TAS 2018 performed better in respect of assets value whitened at Rs.3,011 billion, foreign exchange remitted at Rs. 9.76 billion, and tax paid at Rs. 121.4 billion, as against Rs. 2,263 billion, Rs.1.19 billion, and Rs.64.66 billion for TAS 2019, respectively. However, the TAS 2019 produced significantly better results in terms of declarations filed at 125,349 as against 83,120 for the TAS 2018. The differential in outcomes is explainable in term of slightly variable design features of both tax amnestisations, which turns out as the evidence that amnesty design needs to be worked out well for achieving intended objectives.

A well-designed amnesty program along with a proper timing of implementation could have brought some gains to public revenues, and other segments of society. If the tax amnesty had been accompanied by a strengthened enforcement by the tax administration, there would have been a stronger incentive for the tax evaders to opt for amnesty on account of an increased likelihood of being caught and punished. A Tax amnesty as a part of an overall tax package might prove to be more fruitful, e.g., an amnesty along with reduced tax rates provides a stronger incentive to tax evaders to opt for amnesty, along with compensating the compliant taxpayers.

## VIII. CONCLUSION

There are important summations that can be made from the foregoing debate. Firstly, the Pakistani elites with all the economic power that they have amassed overtime—irrespective of the political affiliations, coalitions, or the regime in power—

can influence public policy at will at any juncture. It has been argued that the elites' cooperation mechanisms are not at all dependent on political propensities as they distinguishably enter into zero-sum transactions on the political chessboard but into non-zero-sum transactions on the economic chessboard.<sup>63</sup>

Secondly, it was a failure in many respects; it failed to bring in the tax revenues that it was pitched up to bring in, and did it mop up the black economy that it was supposed to.

Thirdly, the OECD-CRS framework was effectively neutralised and made redundant as against other countries where it was used to exact laws and improve governance.

Fourthly, the UAE-EOI framework could not be pursued with full national resolve since Pakistan was borrowing safe deposits from them for bolstering its foreign exchange reserves.<sup>64</sup>

Fifthly, the government claims that this was the last tax amnesty in Pakistan was not taken seriously. The industrial elite, during the life of the TAS 2019, started to lobby for a first-ever industrial amnesty. The Federation of Pakistan Chamber of Commerce and Industry (FPCCI) "urged the government to announce first ever "Industrial Amnesty" for the establishment of export-oriented industry without seeking source of income to bring undeclared hidden assets in documented economy besides boosting the volume of exports."<sup>65</sup> It was argued that "trillions of rupees are hidden and undocumented money will be injected in new industries and provide millions of new jobs."<sup>66</sup> This implied that the Elites Ltd. were already sowing seeds for yet another amnestisation for the near future. There was, of course, no doubt in anyone's mind that they were aiming for the desired result at their own will and volition.

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<sup>63</sup>Ahmed, "Pakistan: Extraction, elites and state autonomy: A theoretical configuration."

<sup>64</sup>Muhammad Ashfaq Ahmed, (2021). United nations model tax convention article 6: Selective territoriality—The spectre of privileged player in a rigged game. *Manchester Journal of International Economic Law*, 18:3.

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